BOOK-KEEPING

the modern approach

Squire H. Flitcroft

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BOOK-KEEPING

THE MODERN APPROACH

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By

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PREFACE

THE system of teaching the Principles of Double-entry Book-keeping employed in this book has been developed over many years, and has been found by the author to be eminently successful.

The aim of the book is, firstly, to enable a student of normal ability to assimilate the subject by private study; secondly, to provide a teacher with a method of approach which, by first showing the effect of transactions on the face of the Balance Sheet and then explaining the impracticability in business of altering it after each transaction, will also provide a logical reason for the system of Double-entry Book-keeping which is afterwards described and illustrated. Further, by being made aware immediately of the ultimate goal of all book-keeping systems, a student will be encouraged to apply his reason to the subject with unremitting vigour.

The use of a Banking Account is described in the first chapter because it is felt that a student who has to deal with receipts and payments by cheques should understand them.

The importance of neatness in Book-keeping cannot be over-rated, for on it accuracy largely depends. Teachers, therefore, must insist on neatness in class. It should be pointed out that students are not merely learning the subject to pass examinations, but for business, where entries must be made in ink in books which often contain records extending over many years, and to defile them by untidy work would be considered almost sacrilegious. Further, entries in pencil are easily erased, encourage carelessness, and should never be permitted. All lines should be ruled and not drawn freehand.

Teachers can help very much to promote neatness and good setting out by doing their own work neatly on the blackboard;

by using coloured chalk for the lines; by writing legibly, and by putting units under units, and tens under tens in the money columns, which facilitates accurate addition. More detailed suggestions on these points are given in Chapter X. As mentioned in Chapter X, for typographical reasons the £ sign has been omitted from totals in tabular matter.

The book completely covers the elementary examinations in book-keeping, and will be of help to those beginning their studies for the more advanced and professional examinations. It will also be of help to those in business, particularly to the small trader and those who hope some time to enter business on their own account. It is probably not without its imperfections, and constructive criticism and helpful suggestions for improvement will be appreciated.

The author is grateful to the Royal Society of Arts for permission to reproduce their examination papers.

CONTENTS

PAGE

Preface v

CHAP.

I. The Banking Account 1

Cheques—Convenience of cheques—Record on cheque counterfoil—Crossing of cheques—Paying-in slips—Bank Statement—Bank loans—Exercise 1

II. The Commencement of Business . . 11

The Balance Sheet—Assets and liabilities—The first balance sheet—Effects of transactions on the balance sheet—Profit—The invoice and the statement—Exercise 2

III. The Ledger and Cash Book . . . 21

The ledger—The cash book—Receipts—Payments—Discount—Kinds of discount—Calculation of discount—Further treatment of cash discount—Exercise 3

IV. Purchases, Sales and Returns . . . 31

Credit purchases—Credit sales—Returns outward—Returns inward—Debit notes and credit notes—Exercise 4

V. The Journal 42

Purchase and sale of assets on credit—Commencement of business—Correction of errors—Bad debts—Returns inward and outward—Composite entries—Exercise 5

VI. A Worked Example 50

Journal—Sales book—Purchases book—Returns inward book—Returns outward book—Cash book—Loose-leaf and card ledgers—Division of the ledger—Exercise 6

VII. The Trial Balance 63

Cash book—Purchases book—Sales book—Returns outward and inward—Journal—Suspense account—Exercise 7

VIII. Calculation and Comparison of Results (i) 76

The effect of stock on gross profit—Calculation of final stock—Drawings—Drawings in excess of capital—The distinction between revenue and capital—Exercise 8

CHAP. PAGE

IX. Calculation and Comparison of Results (ii) 92

Analysis of trading and profit and loss accounts—Analysis of the balance sheet—Assets—Fixed assets—Current assets—Fictitious assets—Intangible assets—Liabilities—Long-term liabilities—Current liabilities—Contingent liabilities—Capital—Display of comparative figures—Analysis and comparison of balance sheets—Exercise 9

X. A Worked Example with Final Accounts . 104

Dates—Ink—Neatness and accuracy—Ledger—Stock—Posting—Balancing—Classification of expenses—Cash book—Contra entries—Balancing—Cash transaction: trader's name—Payment of account to date—Payment in full settlement—Trial balance—Balance sheet—Order of assets and liabilities—Debtors and creditors—Expense allocation in final accounts—Loans—Exercise 10

XI. Provisions and Adjustments . . . 129

Amounts owing at end of trading period—Amounts paid in advance of trading period—Provision for bad debts—Bad debts actually incurred—Bad debts recovered—Bad debt set off against provision—Provision for discount on debtors—Provision for discount on creditors—Provision for depreciation—Fixed instalment method—Reducing instalment method—Example of final accounts with adjustments—Exercise 11

XII. Other Aspects of the Bank Account . 160

Bank reconciliation statement—Dishonoured cheques—Dishonoured cheques and cash discount—Bank interest—Multiple current accounts—Exercise 12

XIII. The Petty Cash Book 171

The imprest system—Exercise 13

XIV. Columnar Book-keeping 180

Columnar sales book—Columnar purchases book—Columnar trading and profit and loss accounts—Exercise 14

XV. Partnership 190

The Partnership Act, 1890—The Limited Partnership Act, 1907—Exercise 15

XVI. The Books of a Partnership . . . 193

Partners' capital accounts—Partners' current accounts—Interest on drawings—Interest on capital—Partnership salaries—Final accounts—Exercise 16

CHAP. PAGE
XVII. ADMITTING A NEW PARTNER . . . 219
Amalgamation of businesses—Revaluation of assets—Exercise 17

XVIII. ACCOUNTS OF NON-TRADING CONCERNS . 241
The receipts and payments account—The income and expenditure account—The final accounts of a non-trading concern—When a balance sheet is not necessary—Exercise 18

Appendix. SUPPLEMENTARY EXERCISES 251

Index 255

CHAPTER I

THE BANKING ACCOUNT

It is unwise to store large amounts of money in the home, the shop, or in the office. There is always present the possibility of its being stolen, while the possibility of its recovery is usually remote. Furthermore, there is the danger of destruction by fire, which was the misfortune of a gentleman who stored hundreds of pounds in bank notes beneath the washing boiler, where his housekeeper subsequently lighted a fire.

These risks can be avoided if all spare cash is paid into a Bank, where there is very little likelihood either of pilfering or destruction. In any case, if pilfering or destruction does take place at a bank, it will be the banker's loss and not the customer's.

There are two types of account commonly used by business men at an ordinary commercial bank—the Current Account and the Deposit Account.

Money placed on current account can be withdrawn by cheque on demand, but money placed on deposit account can be withdrawn only after a specified notice has been given to the bank.

Generally, interest is allowed on deposit accounts but not on current accounts. The normal reason for this difference in treatment is that balances on deposit accounts are usually placed with the banker for much longer periods, during which he will be able to use them profitably. On the other hand, as balances on current account are withdrawable on demand, the banker must always have sufficient funds available to meet them.

It is almost a necessity for a business man to have a current account at a bank in order to enjoy the safety and convenience of settling debts by cheque, but as the balance on current account earns no interest, it is not sound economy to have a great deal more in it than is needed to meet the normal requirements of business, and to reduce bank charges. A deposit account can be used for the transfer of amounts which

No. G H 195448

1st July, 1952

E. Williams .....

.....

.....

£20——————

No. G H 195448

2 Main Buildings
Chesterfield
Derbyshire

1st July, 1952

BLANK BANK LIMITED

CHESTERFIELD BRANCH

2d. Stamp.

Pay *E. Williams* .....or Order....

Twenty pounds ——————

.....

.....

£20——————

J. Robbins

C THIS CHEQUE REQUIRES ENDORSEMENT

are not immediately needed to meet the expenses of the business, and so earn interest.

The obvious way to open a banking account is to take a sum of money (say £100) to a bank, and ask to open an account, current or deposit, as the case may be. The cashier will obtain from the new customer his name, address, and a specimen signature. As a safeguard, every new customer should be introduced to a banker by a person of good character known to the banker.

It is imperative for a banker to know the signature of his customer, and the banker who pays out money against a cheque bearing the forged signature of his customer will have to bear the loss.

If the customer wishes to open a deposit account, he will be provided with a pass book showing the amount deposited and containing the directions and conditions under which the account will be conducted.

If the account to be opened is a current account, the customer will be handed a cheque book (for which he will be charged), and a book of paying-in slips, and will be asked how frequently he would like a statement of his account sent to him. Consideration will now be given to the operation of such an account.

Cheques

The cheque is the instrument most commonly used by a customer to give instructions to his banker, and a specimen is given on p. 2.

Here, J. Robbins has instructed Blank Bank, Ltd., on 1st July, 1952, to pay E. Williams the sum of twenty pounds. The three parties to the cheque are—

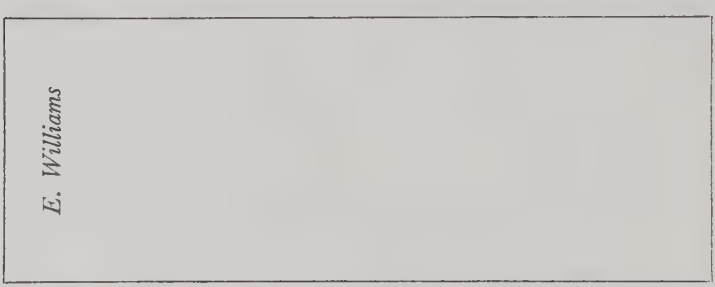
1. Drawer—J. Robbins.
2. Drawee—Blank Bank, Ltd.
3. Payee—E. Williams.

A cheque bearing the words "or order," as shown, is referred to as an "order cheque," and requires endorsement, which means that the payee must write his signature on the back of the cheque before it can be met by the banker. This next example shows the back of the cheque after endorsement.

Cheques which have the words "or bearer" after the payee's

name are called "bearer" cheques. They do not require endorsement and are not often used in ordinary business transactions.

It frequently happens that a business man requires cash for private purposes (referred to usually as "Drawings"), and draws money from the firm's banking account by cheque. In this case he could make out the cheque payable to "Self," and



endorse it with his own signature, thus becoming both drawer and payee. This is assuming, of course, that the banking account is in his own name, and does not bear an impersonal or partnership title.

Convenience of Cheques

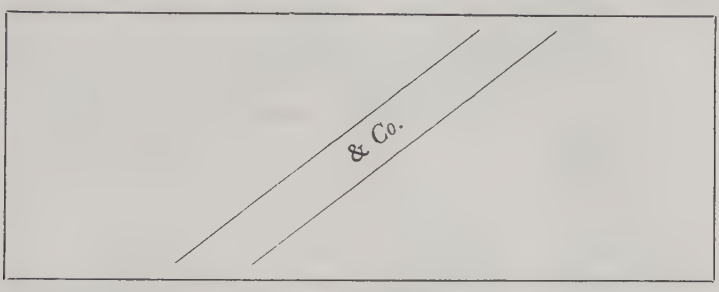
The chief advantage of having a banking account is the great convenience it offers for making payments. A cheque in settlement of a debt can be sent by post with reasonable safety. The facility thus afforded to transfer amounts from place to place was an essential forerunner of the development of trade to its present volume, as such transfers if made in the form of cash by messenger or other agent would give alarming scope for robbery and would be a very serious handicap to commercial progress.

Record on Cheque Counterfoil

When making out a cheque, care should be taken to record the date, the amount, and the name of the payee on the cheque counterfoil, and, on the back of the counterfoil, the amount of the balance at the bank remaining after presentation of the cheque.

Crossing of Cheques

When making out cheques, it is strongly recommended always to "cross" them by drawing two lines across the face of the cheque, with or without the words "& Co." written between them. The safeguarding effect of this is that such a cheque must be paid into a banking account and cannot be cashed over the bank counter. Specially printed crossed



cheques are available to customers at the branches of the bank where their accounts are kept. The above illustration shows how the crossing has to be added to the face of the cheque.

As an additional safeguard, the words "Not negotiable" may be incorporated in the crossing. It must be emphasized that the addition of these words does not prevent dealings with the cheque but the cheque does cease to be a negotiable instrument; the essential characteristic of a negotiable instrument is that the holder is not affected by any defect in the title of the person from whom he received it.

A cheque, whether crossed or uncrossed, being a negotiable instrument, can be passed from one person to another as a mode of payment. Simple delivery alone will suffice for a bearer cheque, but an order cheque will require the endorsement of the person to whom it is made payable, and if this person endorses in the manner already shown, the next recipient of the cheque can treat it as being to bearer, and need not add his own endorsement. A safer course would be for the payee to endorse the cheque in the following manner, when it could still retain its status as an order cheque. Following this course, if E. Williams wanted to send Robbins's

BLANK BANK
LIMITED

Date *25th February, 1952*

£5 Notes .	–	–	–
£1 Notes .	*10*	–	–
10/– Notes .	*10*	–	–
Silver . .	–	*14*	–
Nickel 3d. .	–	–	–
Copper .	–	–	*10*
£	*20*	*14*	*10*
Derbyshire Education Committee .	*40*	–	–
£	*60*	*14*	*10*

BLANK BANK LIMITED

Date *25th February, 1952*

CREDIT ....*S. H. Flitcroft*.....

at.....*Chesterfield*.....Branch

PAID IN BY

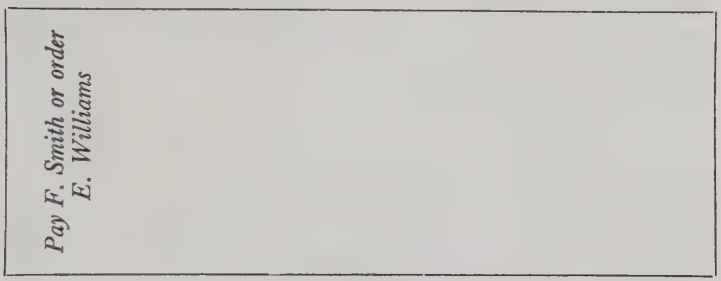
..... *S. H. Flitcroft* .....

£5 Notes .	–	–	–
£1 Notes .	*10*	–	–
10/– Notes .	*10*	–	–
Silver . .	–	*14*	–
Nickel 3d. .	–	–	–
Copper .	–	–	*10*
£	*20*	*14*	*10*
Cheques, P.O.s etc.			
Derbyshire Education Committee .	*40*	–	–
£	*60*	*14*	*10*

Customers are requested to cross all cheques "BLANK BANK LIMITED" before paying them in.

cheque for £20 to F. Smith, the back of the cheque would need the endorsement shown below.

This cheque will need to be endorsed by F. Smith. If he does so merely by signing his name, the cheque will then be treated as to bearer. To maintain it as an order cheque, he will have to use the same method of endorsement as E. Williams.



However, this facility for passing cheques from one person to another in discharge of debts is rarely used in business, and is not to be recommended.

The insertion of the word "only" immediately after the name of the payee, and the deletion of the words "or order" or "or bearer," prevents the transfer of a cheque to another payee. Such an alteration must, of course, be signed by the drawer.

Paying-in Slips

When payment is made into a bank, the amount and details should be recorded on the paying-in slip and its counterfoil, and care should be taken to see that the banker certifies the counterfoil as well as the slip itself by stamping it with the official stamp and initialling it. A banker sometimes makes mistakes, and should he fail to credit an account with an amount paid in for it, the paying-in slip will provide the necessary evidence to have the matter put right. A form of paying-in slip with counterfoil is given on p. 6.

Bank Statement

Periodically, according to mutual arrangement (usually at the end of each month), the banker will send his customer a

statement giving details of ingoings and outgoings. These statements have superseded the old form of pass book, and generally take the form illustrated below.

Date	Cheques, etc., Paid		Credits		Balance
	Description	Amount	Description	Amount	
		£ . d.		£ s. d.	£ s. d.
Dec. 31, '52			Balance Forward		114 11 9
Jan. 2, '53			Cash . .	20 – –	134 11 9
Jan. 6, '53	Self . .	6 – –			128 11 9
Jan. 20, '53	Paramount Insurance .	15 10 –			113 1 9
Jan. 30, '53	Cheque Book .	4 –			112 17 9

The date column gives the date of the transaction, and of the balance brought forward, while that headed "Cheques, etc. paid" records all payments out of the account. The "Credits" column shows payments into the account, and the "Balance" column the balance brought forward and the balance after each transaction. If the account is overdrawn, the figure in the balance column will be shown in red. An analysis of the specimen statement just shown reveals the following information—

		£ s. d.
December 31st, 1952.	Balance brought forward . . .	114 11 9
January 2nd, 1953.	Cash paid into account . . .	20 – –
	New balance	134 11 9
6th	Cashed cheque for self . . .	6 – –
	New balance	128 11 9
20th	Paid cheque to Paramount Insurance Co.	15 10 –
	New balance	113 1 9
30th	Bank charged for new cheque book .	4 –
	New balance	112 17 9

Mistakes rarely occur in these statements; they should, nevertheless, be checked against cheque and paying-in book counterfoils. Even if the banker has not made a mistake, it is possible for the customer himself to have done so.

Bank Loans

Every business has its busy and its slack seasons. It will be appreciated that the amount of working capital (funds required to pay the running costs of the business) required to finance a busy season will be greater than that required to finance a slack period; and, if a business man always held enough to finance his seasonal peak, he would during slack times find himself holding a more or less idle surplus. Consequently, providing loans to business men has become one of the traditional services rendered by banks, who charge interest on the amounts. The loan may be in the form of an overdraft, when the banker agrees to honour cheques drawn by his customer, up to a fixed amount. Interest is charged on the actual amount overdrawn. The banker may require some form of security or guarantee to cover such an advance, or he may in some cases rely entirely upon his customer; again, he may withdraw the facility on giving notice to his customer, and may even demand repayment of sums already advanced should he consider that circumstances have arisen which make it advisable for him to do so.

The alternative method of borrowing from a banker is in the form of a loan account. In this case greater rigidity is observed, in that a fixed amount is loaned for a fixed period, and interest is charged on the whole amount of the loan. It would therefore appear to be financially prudent to borrow on loan account when the whole amount is required at once for a particular purpose, and when the borrower requires the assurance afforded by a fixed date for repayment.

EXERCISE I

1. What is the difference between a current account and a deposit account in a bank? (*R.S.A.*)
2. Draw a cheque for £25 10s. with The Blank Bank, Ltd., as drawee, J. Smith as payee, and T. Jones as drawer, and name the person who has the account at the bank.
3. Would you advise a business man to open a banking account? Give reasons for your answer.
4. Distinguish between: (*a*) An order cheque and a bearer cheque, and (*b*) An open cheque and a crossed cheque. (*R.S.A.*)
5. Explain the following terms: (*a*) Paying-in slip, (*b*) Cheque, (*c*) Bank statement.

6. Define the term "Overdraft."
7. Describe two safeguards which can be employed when writing out cheques.
8. How does a trader obtain the right to draw cheques upon a Bank?
9. Distinguish between an overdraft and a loan and state when you consider the latter to be more appropriate. Give reasons for your answer.

CHAPTER II

THE COMMENCEMENT OF BUSINESS

The purpose of book-keeping is the accurate recording of the transactions of any business.

To run a business successfully and to control it efficiently, it is obviously essential to maintain accurate records of such things as amounts owing to the business by customers, amounts owing by the business to suppliers, cash received and paid out, working expenses incurred for rent, rates, lighting, wages, etc., and the value of the things used by the business, of which plant and machinery, fixtures and fittings, and delivery vans may be quoted as examples.

The accurate recording of all this information will enable the proprietor of a business to ascertain what profit has been made or what loss has been incurred during the period under review, as well as the sources of profit or loss. He will be able to compare his financial position at the end of a period with that at the beginning. It will be possible to keep a careful watch over all expenditure and to measure the efficiency of running the business from period to period; but without the systematic and accurate record of transactions afforded by book-keeping, all this would be impossible.

In order to get the whole story, and to facilitate both explanation and understanding, it is essential to record the financial position of a business at its commencement, and to show the effects upon it of subsequent transactions.

The Balance Sheet

The book-keeping method of recording a financial position is by means of the balance sheet, which is a list of the assets and liabilities of a business as on any particular date. In fact, the balance sheet of a business is, in a sense, a photograph of the business with its motion arrested at a particular time, after the manner in which a camera with a fast lens "arrests" the motion of a locomotive pulling an express train at high speed. When the photograph is developed, the

locomotive appears to be stationary, with all its wheels at rest; but it is known that immediately after the taking of the photograph the wheels will have travelled.

So it is with a business; immediately after the compilation of the balance sheet some debtor will have paid his debt, some more raw materials will have been purchased, and so on. It is for this reason that the balance sheet is dated *as at* a particular date.

Assets and Liabilities

An *asset* is something the business possesses and uses for the purpose of the business, such as, in the case of a tobacconist, a pair of scales; or something owing to the business, such as the debt of a customer who owes £5 for tobacco and cigarettes.

A *liability* is something the business owes, an example being the sum due to a tobacco manufacturer for tobacco bought but not paid for.

The First Balance Sheet

The opening of a special banking account for the business is necessary in order to keep the business receipts and payments separate from those of the owner. J. Robbins opens a tobacco shop on 1st November, 1952, and on that day opens a current account at the bank in the name of the business, and pays in £1,500. The balance sheet of J. Robbins's Tobacco Shop immediately after opening the bank account would be—

J. ROBBINS—TOBACCONIST
BALANCE SHEET AS AT 1ST NOVEMBER, 1952

Liabilities	£	*Assets*	£
Capital	1,500	Cash at Bank . . .	1,500

(*Note.* In England it is customary to show assets on the right-hand and liabilities on the left-hand side of a balance sheet.)

In considering the above balance sheet of J. Robbins, Tobacconist, the business certainly has an asset worth £1,500 in the item "Cash at Bank," for J. Robbins opened an account at the bank with that amount. But why a liability of £1,500 in the name of "Capital"? According to definition, a liability is something the business owes!

This seems to oppose a fundamental principle of book-keeping, but it must always be remembered that the records

are those of the business and not of the owner of the business, i.e. they are the records of J. Robbins's Tobacco Shop and not of J. Robbins personally. It will therefore be clear that the business owes J. Robbins the £1,500 with which he opened its banking account, so that this amount is a liability of the business to its owner, who may be regarded as the provider of its capital, and is, in consequence, its creditor under the name of "Capital."

Effects of Transactions on the Balance Sheet

J. Robbins now makes the following transactions in the name of the business—

1952

Nov. 2. Buys freehold shop for £600 and pays by cheque.

This reduces the bank balance by £600, but introduces a new asset in the form of a shop worth £600.

J. ROBBINS—TOBACCONIST

BALANCE SHEET AS AT 2ND NOVEMBER, 1952

(After buying freehold shop)

Liabilities	£	*Assets*	£
Capital	1,500	Freehold Shop . .	600
		Cash at Bank . . .	900
	1,500		1,500

Nov. 3. Buys fixtures and fittings for £100 and pays by cheque.

This further reduces the bank balance by £100, which is replaced by fixtures and fittings worth £100.

J. ROBBINS—TOBACCONIST

BALANCE SHEET AS AT 3RD NOVEMBER, 1952

(After buying fixtures and fittings)

Liabilities	£	*Assets*	£
Capital	1,500	Freehold Shop . .	600
		Fixtures and Fittings .	100
		Cash at Bank . . .	800
	1,500		1,500

Nov. 4. Buys stock of tobacco, cigarettes and pipes from various suppliers on credit (i.e. not paid for immediately) value £100, and a further quantity for £50, for which he pays by cheque.

This creates an asset (stock worth £150) and, at the same time, a liability (Sundry (more than one) Creditors for £100) and reduces cash at bank by £50 to £750.

J. ROBBINS—TOBACCONIST

BALANCE SHEET AS AT 4TH NOVEMBER, 1952
(After buying stock £100 on credit and £50 for cash)

Liabilities	£	*Assets*	£
Sundry Creditors . .	100	Freehold Shop . .	600
Capital	1,500	Fixtures and Fittings .	100
		Stock	150
		Cash at Bank . . .	750
	1,600		1,600

Profit

Assuming that J. Robbins has, by 10th November, 1952, sold the whole of his stock of tobacco, cigarettes and pipes for £200 (£100 on credit and the remainder for £100 cash received over the counter), the balance sheet of the business would be as follows—

J. ROBBINS—TOBACCONIST

BALANCE SHEET AS AT 10TH NOVEMBER, 1952

Liabilities		£	*Assets*	£
Sundry Creditors . .		100	Freehold Shop . .	600
Capital . .	£1,500		Fixtures and Fittings .	100
Add Profit .	50		Sundry Debtors . .	100
			Cash at Bank . . .	750
		1,550	Cash in Hand . . .	100
		1,650		1,650

The sale of the stock for £200 eliminates this asset from the balance sheet, and it is replaced by Sundry Debtors £100, and Cash in Hand £100. The £50 profit belongs to J. Robbins and, as he has not withdrawn it, constitutes an added investment which supplements his capital.

It will be appreciated that the whole of the excess of the selling price of goods over their cost price does not represent the real gain. In any business there will be incidental expenses, such as wages, rates, etc. Let it be assumed that J. Robbins has paid £10 in cash for wages up to the 12th November, 1952, thus reducing his apparent profit to £40. Let it also be assumed that he has received by cheque and paid into the bank the £100 owing by the people to whom goods were sold on credit, and that he has paid by cheque for the goods he had previously bought on credit. The balance sheet would then be as follows—

J. ROBBINS—TOBACCONIST

BALANCE SHEET AS AT 12TH NOVEMBER, 1952

Liabilities		£	*Assets*	£
Capital	£1,500		Freehold Shop	600
Add Profit	£50		Fixtures and Fittings	100
Less Expenses	10	40 1,540	Cash at Bank	750
			Cash in Hand	90
		1,540		1,540

The receipt by cheque of the £100 owed by debtors eliminates that asset from the balance sheet and increases the cash at bank by £100, to £850. The payment of £10 in cash for wages reduces the cash in hand by £10 and the profit by £10. The payment by cheque of the £100 owed to creditors removes that item from the liabilities side and reduces the cash at bank by £100, back again to £750.

A study of the balance sheets of J. Robbins of the 4th, 10th and 12th November, 1952, will reveal the conversion of stock to debtors, and of debtors to cash which is used to pay the creditors for stock bought on credit. This completes the circle and provides a reason for calling stock, debtors and cash "circulating assets."

From the above simple illustrations it will be seen that the effects of any transaction on the financial position of a business could be shown by altering the balance sheet after each transaction; but as the number of transactions which takes place, even in the smallest business, makes it impossible to do this in practice, other methods of recording transactions have been devised, whereby all these individual alterations can be

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INVOICE

Date *4th November, 1952*

J. Robbins, Esq.,
16 Cavendish Parade,
Chesterfield.

Bought of

TOBACCO SUPPLIERS LTD.

HAVANA BUILDINGS, BIRMINGHAM

Customer's Order No.	Quantity		Rate	£ s. d.
3	*5,000*	*Vendetta Medium Cigarettes, per 1,000 . .*	*100/–*	*25 – –*
	24	*Edgehill Briars, each . . . . .*	*7/6*	*9 – –*
				34 – –
		Terms: Net Monthly Account		

summarized as separate operations and their respective *totals* used to attain the same end.

It will have been noted that the meaning of the expression "Double-entry Book-keeping" has not yet been discussed. This is because an attempt to do so earlier might have distracted attention from the working of examples.

Referring back to the simple transactions of J. Robbins, each one of these was seen to have a double effect.

When the £1,500 was paid into the bank, an item called "Cash at Bank" appeared in the balance sheet as an asset concurrently with the appearance of a liability entitled "Capital."

On the following day, when the freehold shop was bought, the item "Freehold Shop" was shown as an asset in the balance sheet. No liability appeared in the balance sheet on this occasion, but an equivalent result was obtained in the reduction of the asset item "Cash at Bank."

In short, each transaction is reflected by the amendment of two accounts. Even if at this stage such a system may appear to involve unnecessary duplication, it will be appreciated that the two sets of such amendments will provide a check upon each other in the way that a pair of scales will not balance unless the additions and deductions made on the one side equal in effect the various adjustments made on the other.

The Invoice and the Statement

Before proceeding to the next chapter, it will be necessary to consider the documents which would have been used in the course of the transactions just described.

These are the Invoice and the Statement of Account (or, to give it the shorter title more used in business, the Statement).

An invoice is a document sent to a debtor by the firm or person who has supplied him with the goods or services which he has ordered. It should show the date of the transaction, and give particulars of the goods or services, quantities, prices, amount charged, terms of payment, and conditions, if any, attached to the sale, one of the commonest of these being a time limit for making complaints. One of the invoices sent to J. Robbins for goods supplied to him on 4th November, 1952, might take the form shown on p. 16.

In the specimen invoice shown, the supplier has stated his terms for payment of the account, employing a phrase

Telephone: Birmingham 142857
Telegrams: "Cheroot, Birmingham"

STATEMENT

Date *30th November, 1952*

J. Robbins, Esq.,
16 Cavendish Parade,
Chesterfield.

In Account with

TOBACCO SUPPLIERS LTD.

HAVANA BUILDINGS, BIRMINGHAM

		£ s. d.	£ s. d.
Nov. 4	*To Goods*	*34 – –*	
10	*„ „*	*20 – –*	
27	*„ „*	*35 – –*	
			89 – –
23	*By Cash on account*		*25 – –*
			64 – –

Terms: Net Monthly Account

commonly used in business and meaning that payment is to be made without rebate not later than one month from the date of the invoice. (Quite frequently settlement terms allow rebates off the amounts invoiced, but this aspect will be dealt with in the next chapter.)

The other document which has been referred to (the statement) can now be described.

A statement is sent by a supplier to his customer usually at the end of each month. It summarizes the transactions, shows the balance outstanding, and serves as a reminder to the customer while providing him with means for checking his account with the supplier.

To enable a better example to be shown, assume that J. Robbins bought further supplies from Tobacco Suppliers, Ltd. during November, to the value of £20 on the 10th, and £35 on the 27th; and, being a new customer he thought it prudent to send to the supplier a cheque for £25 on account, doing so on the 23rd. An illustration of the statement as it would appear when rendered at the end of the month is given on p. 18.

EXERCISE II

1. Would you advise a business man to keep a record of all his transactions? Give reasons for your answer.
2. Define the terms Asset, Liability, and Balance Sheet.
3. Explain why capital is put on the liabilities side of a balance sheet.
4. The financial effect on a business of any transaction can be shown by altering the balance sheet. Explain this statement.
5. Explain why alteration of the balance sheet in place of a more detailed system of book-keeping is not a practical business proposition.
6. Explain why and how a balance sheet should be dated.
7. Do you consider it wise that a business man should open a banking account in the name of his business as distinct from his private account? Give reasons for your answer.
8. From the following particulars prepare the balance sheet of John Smith as at 1st September, 1952, and his balance sheet as at 4th September, 1952.

1952
Sept. 1. Paid £4,000 into business banking account.
2. Bought premises for £2,000 and paid by cheque.

Sept. 3. Bought fixtures and fittings for £200 and paid by cheque.
4. Bought stock value £100; paid £50 by cheque, the remainder being bought on credit.

9. From the following particulars compile the balance sheet of Frank Johnson, chemist, as at 1st September, 1952, and his balance sheet as on 5th September, 1952.

1952
Sept. 1. Paid £6,000 into business banking account.
2. Bought premises for £1,000 and paid by cheque.
3. Bought fixtures and fittings for £500 and paid by cheque.
4. Bought stock value £400; paid £100 by cheque, the remainder being bought on credit.
5. Sold all stock for £500 cash, which was paid into bank.

10. From the following particulars compile the balance sheet of Sidney Townsend, newsagent, as at 1st September, 1952, and his balance sheet as at 6th September, 1952.

1952
Sept. 1. Paid £5,000 into business banking account.
2. Bought premises for £2,600 and paid by cheque.
3. Bought fixtures and fittings for £400; paid £100 by cheque, the remainder being bought on credit.
4. Bought delivery van for £600; paid £200 by cheque, the balance to be paid later.
5. Bought stationery, periodicals, newspapers and miscellaneous articles value £400; paid £100 by cheque, the remainder being bought on credit.
6. Sold half of the stock for £300; £100 received in cash which was banked, the remainder being on credit.

11. What is wrong with the following heading of a balance sheet and why is it wrong?

"Balance Sheet for the year ended 31st December, 1952."

(*R.S.A.*)

CHAPTER III

THE LEDGER AND CASH BOOK

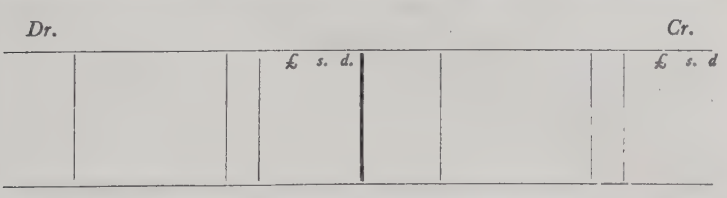
THE problem of how to divide the financial records of a business in such a way as to enable the accounts staff to deal with a large number of transactions is not a difficult one.

The different kinds of business transaction can be classified to provide the adjustments which will ultimately be reflected in the balance sheet, to avoid the need for repeated alteration of that document, and eventually allow each class of transaction to be handled as a separate operation.

The Ledger

It was explained in the previous chapter how each transaction had a double effect; how the payment of money into the bank created an asset "Cash at Bank" and a liability "Capital"; and how the purchase of business premises created an asset called "Freehold Shop" along with a liability given effect to as a diminution of the asset "Cash at Bank."

All these double effects could be accommodated in one book of record called the "Ledger," and, while it would be a very clumsy and unscientific performance, let it be assumed for the time being that this will be done. An example of the standard form of ledger page (called a "folio") is now given—



The position to the left of the central double ruling is called the "Debit" (*Dr.*) side, and that to the right of it the "Credit" (*Cr.*) side.

Each ledger folio will be headed with the account title, and will contain only entries relevant to that title.

Each account will be allocated appropriately to one of the following main categories—

1. *Personal Accounts*, recording transactions of persons or firms who do business with the firm, and who are "Debtors" (those who owe money) and "Creditors" (those to whom money is owed).

2. *Real Accounts*, which relate to property or other assets.

3. *Nominal Accounts*, dealing with expenses such as rent, rates, wages, discount allowed, and purchases; with losses, such as bad debts; and with gains of the nature of sales, discount received, and interest received.

(The last two categories are often referred to as "Impersonal Accounts.")

The writing of entries in these accounts is governed by simple rules, which are—

(i) *Personal Accounts*. Debit receiver: Credit supplier.

(ii) *Real Accounts*. Debit increases in value: Credit decreases.

(iii) *Nominal Accounts*. Debit expenses or losses: Credit income or gains.

Here again J. Robbins's early transactions may be used to provide material for examples. Assume that one of the customers to whom tobacco was sold on credit in November was A. Thompson, the date being the 9th, and the amount £5.

The personal account of A. Thompson, the recipient, would be debited, and the nominal account (Sales) would be credited with the income which the sale represents. These two accounts are now shown—

Dr. A. THOMPSON *Cr.*

1952		£	s.	d.			£	s.	d.
Nov. 9	To Goods	5	–	–					

Dr. SALES *Cr.*

				1952		£	s.	d.
				Nov. 9	By A. Thompson	5	–	–

The insertion of the word "To" before debit entries and "By" before credit entries will be noted.

The purchase of a freehold shop on 2nd November would result in a real account being debited.

Dr.		FREEHOLD SHOP							*Cr.*
1952			£	s.	d.				
Nov. 2	To Cash .		600	–	–				

Still following the rules, when wages £10 were paid on 12th November, the nominal account arising would appear like this—

Dr.		WAGES							*Cr.*
1952			£	s.	d.				
Nov. 12	To Cash .		10	–	–				

In each of the last two examples, only one phase of each transaction has been shown, but a real account (the asset "cash") was diminished by two amounts when a cheque for £600 was drawn on the bank account and £10 was paid from cash in hand. It would, of course, be possible to open accounts in the ledger under the headings "Cash at Bank" and "Cash in Hand," and make credit entries in each, thus completing the double entry.

For many good reasons this course is not adopted, and the first step away from the clumsiness previously referred to is accomplished by keeping a "Cash Book" to record receipts and payments in cash or by cheque. It will be clear at once that this section of the ledger delegated to the cash book may be controlled and operated independently, thus increasing privacy and reducing risk. The cash book is also arranged to accommodate items of discount which are incidental to many cash receipts and payments.

The Cash Book

Every business is continually paying out and receiving cash, and it is appropriate to record these transactions conveniently and expeditiously. All amounts received or paid, whether in cash (banknotes or coin) or by cheque, and *for whatever reason*, are entered in the cash book.

CASH BOOK OF J. ROBBINS, TOBACCONIST

3 *Dr.* *Cr.* 3

1952			£ s. d. Discount	£ s. d. Cash	£ s. d. Bank	1952			£ s. d. Discount	£ s. d. Cash	£ s. d. Bank
Dec. 1	To Balance . .	b/f		20 – –	800 – –	Dec. 4	By Havana Tobacco Co.	7	7 4 –		280 16 –
	Sales . .	13		40 – –			Purchases .	8	5 –		9 15 –
3	Sales . .	13		50 – –			Delivery Vans .	9			200 – –
4	Sales . .	13		70 – –			Cigarettes, Ltd.	10			100 – –
5	Sales . .	13		100 – –		5	Rent . .	11		10 – –	
6	Cash . .	C			260 – –	6	Wages . .	12		40 – –	
	Delivery Van .	9			100 – –		Bank . .	C		260 – –	
	Sales . .	13		100 – –			Balance . .	c/d		70 – –	569 9
									7 9 –		
				380 – –	1,160 – –					380 – –	1,160 – –
Dec. 7	To Balance . .	b/d		70 – –	569 9 –						

Note. The periodical balancing of the cash book enables a watch to be kept on the fluctuations of the cash balances. In the above cash book it will be seen that the cash at bank has been reduced from £800 to £569 9s., while the cash in hand has risen from £20 to £70.

EXAMPLE. From transactions of J. Robbins, Tobacconist.

1952

Dec. 1. Cash at bank £800; Cash in hand £20.
Cash sales £40
3. Cash sales £50.
4. Paid Havana Tobacco Co. amount due to them (£288) less 2½ per cent cash discount.
Bought pipes £10 and paid by cheque less 2½ per cent cash discount.
Bought two delivery vans by cheque, £100 each.
Cash sales £70.
5. Paid Cigarettes Ltd., on account, £100 by cheque.
Cash sales £100.
6. Paid rent £10.
Paid wages £40.
Sold delivery van to Swallows for £100, receiving payment by cheque, which was paid into bank.
Cash sales £100.
Paid £260 into bank.

The cash book recording these transactions is shown on page 24.

The rules governing entries in the cash book are those used for real accounts, i.e. debit increases in value, credit decreases. Or, in other words for the present purpose, debit receipts and credit payments. As in the ledger, the debit is the left-hand side, the credit the right-hand.

Receipts. These may be in the form of cash or cheques, which raises a small point to be cleared at once. If all cheques received are paid into the bank immediately, they will be entered in the bank column; if they are not paid into the bank promptly, they should be treated as cash receipts and entered in the cash column.

In the example shown, the entry on the debit side of £20 in the cash column and £800 in the bank column represents the balances carried forward from November and received by the newly-opened December section of the cash book, in which they are accordingly debited.

The second debit entry on 1st December of £40 in the cash column, described as "To Sales," is a record of the receipt of cash for sales over the counter ("Cash Sales"). The word "Sales" is used here because it is a term in general use for the description of goods in which a business is dealing.

Payments. Payments by cheque will appear in the bank column; those made by cash in the cash column.

Discount. If discount be deducted for prompt settlement, this will be entered in the discount column, and the net amount received or paid in the cash or bank column.

Kinds of Discount

It is in the interest of a trader to run his business on the minimum of capital, and with this aim in view debtors can be encouraged to pay within a specified time by the offer of a rebate called "Cash Discount," which is allowed usually in the form of a $2\frac{1}{2}$ per cent deduction for payments made within a month from date of invoice. *Cash Discount is therefore an allowance for prompt payment, and will appear in the discount column of the cash book.*

Another type of discount is that allowed to all those in the trade concerned, e.g. the discount allowed by wholesalers to retailers. A retailer would be unable to earn a living if he sold goods at the same price as he paid for them. He will need a margin in his favour, which he will receive from his wholesaler as a rebate off a standard price list, the full prices of which he may charge to his customers, and may indeed be compelled to charge if this is an enforceable condition imposed by his suppliers. This type of discount is called "Trade Discount," the rate of which is sometimes varied by wholesalers in accordance with fluctuations of commodity prices as a means of avoiding the expense of printing new catalogues or price lists.

Trade Discount is therefore that which is allowed to all members of the trade, and will not appear in the discount column of the cash book.

Calculation of Discount. Assume that a retail tobacconist bought on credit from a wholesaler tobacco valued £100 at retail price but subject to 20 per cent trade discount, and that he earned the $2\frac{1}{2}$ per cent cash discount by paying within the time limit specified. The amount to be paid by the retailer is calculated as follows—

	£
Tobacco at list price	100
Less 20 per cent trade discount	20
	80
Less $2\frac{1}{2}$ per cent cash discount for prompt payment (on £80)	2
	78

Note. 2½ per cent is 6d. in the £, and 5 per cent is 1s. in the £.

Further Treatment of Cash Discount. As already shown, cash discount is an allowance, and although it appears in the cash book, it does not affect the actual *cash* balance. Each item of discount allowed is a loss, and each item of discount received a gain, indicating the characteristics of nominal accounts, to which in fact they belong, having for convenience been recorded in the cash book alongside the cash items to which they relate. Therefore the cash book discount columns contain the component details for the ledger accounts "Discount Received" and "Discount Allowed," to which they are transferred *in total* periodically, usually at the end of each month.

Consequently, the total of the discount received column is posted to the credit side of the "Discount Received" account in the ledger, and the total of the discount allowed column to the debit side of "Discount Allowed" account in the ledger.

For example, if fifty items of discount were allowed to customers during a month, instead of fifty personal accounts being credited, and fifty entries being made in the nominal account, only one entry would be made in the latter, while each item for a personal account could be added to its relevant cash item, and both posted as a composite entry.

This economy in effort will be found to be in line with other subsidiary means employed in keeping the ledger.

Referring again to the specimen cash book, the first entry on the credit side on 4th December recorded as "By Havana Tobacco Co." with £7 4s. in the discount column and £280 16s. in the bank column, shows a payment by J. Robbins of £280 16s. by cheque in settlement of a bill for £288. The £7 4s. has been deducted as cash discount for prompt payment.

The second entry on the credit side on 4th December discloses a payment of £9 15s. by cheque in settlement of a bill for £10, and as payment was made immediately, a cash discount of 5s. was allowed. The use of the word "Purchases" in this transaction, like the previous use of the word "Sales," will be understood to stand for goods dealt with in the ordinary course of business; and as the pipes were purchased for cash a personal ledger account need not be opened.

This specimen cash book shows only one phase of each entry; double-entry has not yet been completed. A real account, as represented by the cash book, has been dealt with, but this still leaves the other real, personal and nominal accounts affected by each cash entry to be attended to.

This is done by transferring each cash book debit to the credit of the appropriate ledger account, and each cash book credit entry to the debit of its ledger account. The payment of £260 cash into the bank merely requires an entry in the cash column on the credit or payments side, and a corresponding entry on the debit or receiving side in the bank column; the total cash position is unchanged. The transfer of such particulars to the ledger is called "posting."

Ledger accounts showing these postings are given below. Assume that credit balances were already in the personal accounts with £288 owing to Havana Tobacco Co., and £150 to Cigarettes, Ltd.

7 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 7

1952			£ s. d.	1952			£ s. d.
Dec. 4	To Cash and Discount .	C.3	288 – –	Dec. 1	By Balance .	b/f	288 – –

8 *Dr.* PURCHASES *Cr.* 8

1952			£ s. d.				
Dec. 4	To Cash and Discount .	C.3	10 – –				

9 *Dr.* DELIVERY VANS *Cr.* 9

1952			£ s. d.	1952			£ s. d.
Dec. 4	To Cash . .	C.3	200 – –	Dec. 6	By Cash . .	3	100 – –

10 *Dr.* CIGARETTES, LTD. *Cr.* 10

1952			£ s. d.	1952			£ s. d.
Dec. 5	To Cash . .	C.3	100 – –	Dec. 1	By Balance .	b/f	150 – –

11 *Dr.* RENT *Cr.* 11

1952			£ s. d.				
Dec. 6	To Cash . .	C.3	10 – –				

12 *Dr.* WAGES *Cr.* 12

1952			£	s.	d.					
Dec. 6	To Cash . .	C.3	40	–	–					

13 *Dr.* SALES *Cr.* 13

						1952			£	s.	d.
						Dec. 1	By Cash . .	C.3	40	–	–
						3	Cash . .	C.3	50	–	–
						4	Cash . .	C.3	70	–	–
						5	Cash . .	C.3	100	–	–
						6	Cash . .	C.3	100	–	–

14 *Dr.* DISCOUNT ALLOWED *Cr.* 14

15 *Dr.* DISCOUNT RECEIVED *Cr.* 15

						1952			£	s.	d.
						Dec. 6	By Sundry Creditors .	C.3	7	9	–

Each cash book and ledger folio is given a serial number, and, when posting, the cash book serial number is entered in the narrow folio column of the ledger account, and that of the ledger account in the folio column of the cash book. The folio column is the narrow column on the left-hand side of each cash column, and provides a means of cross-reference and an indication of what items have been dealt with.

The balancing of accounts is done in a manner similar to that employed in the cash book example. When total debits exceed total credits, this will result in a debit balance being "brought down," and when credits exceed debits the reverse will arise. The abbreviations "c/d" and "b/d" mean respectively "carried down" and "brought down," and are used when these operations occur on the same folio. When a balance is carried forward to another folio the abbreviation first used is "c/f", with "b/f" (brought forward) appearing alongside the balance reproduced.

EXERCISE III

1. Explain the term "Double-entry Book-keeping."
2. A debit balance represents either a loss or an asset, depending on the class of account in which it appears. In the same way, a credit balance is either a gain or a liability. Explain this statement.
3. Give the rules for making entries into (*a*) Real, (*b*) Personal, and (*c*) Nominal accounts.
4. Explain why the cash book discount column totals are posted to the same side of the respective discount accounts in the ledger as that on which they appear in the cash book.
5. Where would you look for the value of plant and machinery or for the amount owing to a certain person?
6. Distinguish briefly between: (*a*) Debit balance and credit balance, and (*b*) Assets and liabilities. (*R.S.A.*)
7. Explain why the opening balances of cash in hand and at bank are debited in the cash book.
8. Give an explanation for the debiting of receipts and the crediting of payments in the cash book.
9. What is trade discount? How is it dealt with in the books of a trader? (*R.S.A.*)
10. What advantages does a trader gain by allowing cash discount?
11. Calculate the amount a trader should pay when he buys goods value £480 subject to $33\frac{1}{3}$ per cent trade discount and earns a cash discount of $2\frac{1}{2}$ per cent.
12. Explain the difference between cash discount and trade discount.

CHAPTER IV

PURCHASES, SALES AND RETURNS

When goods are bought or sold for an immediate cash payment, the transaction is complete, and is recorded by an entry in the cash book and an entry in the ledger account concerned.

If, however, the purchase or sale is on a credit basis, the transaction is performed in two parts, i.e. purchase or sale, and eventual settlement of account.

In the first part, a purchases or sales account and a personal account are affected; in the second part, cash and a personal account.

Credit Purchases

When purchases are made, the personal ledger accounts of the suppliers need to be credited, and the purchases account debited.

This could be done by using suppliers' invoices as posting media, each invoice bearing a serial number which could be recorded in the folio column of the personal account. While each personal account would require an individual entry, only the monthly total of the invoices need be posted to the purchases account.

Many businesses, however, find it more convenient to schedule their purchases, and for this purpose use a Purchases Book, or, as it is frequently called, a Bought Day Book. It may be recalled that "purchases" refer to the purchase of goods in which the business deals.

Example. From transactions of J. Robbins, tobacconist—

1952

Nov. 16. Bought on credit from Havana Tobacco Co., Ltd., cigarettes £400, receiving 20 per cent trade discount.

17. Bought on credit from Cigarettes, Ltd., cigarettes and tobacco £300, less 25 per cent trade discount.

18. Bought on credit from Havana Tobacco Co., Ltd., cigarettes £400, and received 20 per cent trade discount.

A common form of purchases book which could serve to record the foregoing transactions is shown on p. 32.

PURCHASES BOOK 1

1952			£	£
Nov. 16	Havana Tobacco Co., Ltd.—			
	20,000 "Anon" cigarettes (20's) . .			
	20,000 "Anon" cigarettes (10's) . .		400	
	Less 20% trade discount. . .		80	
		7		320
17	Cigarettes, Ltd.			
	10,000 "Cypher" cigarettes (10's) .		100	
	55 lb. "Snowflake" mixture (1 oz.) .		200	
			300	
	Less 25% trade discount. . .		75	
		10		225
18	Havana Tobacco Co., Ltd.—			
	10,000 "Anchor" cigarettes (20's) .			
	30,000 "Anchor" cigarettes (10's) .		400	
	Less 20% trade discount . .		80	
		7		320
	Debit purchases account . . .	8		865

The amount posted to the credit of the personal account will be the net figure in each case (showing why trade discount does not appear in the cash book), while only the total figure (£865) will be posted to the debit of purchases account. In practice this total would cover at least a month's transactions. The ledger accounts are shown below.

7 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 7

				1952			£
				Nov. 16	By Goods . .	P.1	320
				18	Goods . .	P.1	320

10 *Dr.* CIGARETTES, LTD. *Cr.* 10

				1952			£
				Nov. 17	By Goods . .	P.1	225

8 *Dr.* PURCHASES *Cr.* 8

1952			£				
Nov. 18	To Sundries .	P.1	865				

Credit Sales

Credit sales are transactions in which the seller agrees to allow his customer to have the goods without having to pay for them at once. In other words, arrangements may be made for payment to be at some agreed period after delivery of the goods.

The method for dealing with these is almost a counterpart of that described for dealing with purchases.

The Sales Book (or Sales Day Book) is ruled similarly, but personal accounts are debited in this case, the total of sales being credited to sales account in the ledger.

EXAMPLE. From transactions of J. Robbins, Tobacconist.

1952

Nov. 18. Sold on credit to A. Green, tobacco £20, less 10 per cent trade discount.

19. Sold on credit to G. Mason, tobacco and cigarettes £200, less 15 per cent trade discount.

21. Sold on credit to A. Green, cigarettes £100, less 10 per cent trade discount.

The sales book entries would be as shown below.

SALES BOOK 1

1952			£	£
Nov. 18	A. Green			
	5½ lb. "Snowflake" mixture (1 oz.) .		20	
	Less 10% trade discount . .		2	
		25		18
19	G. Mason			
	10,000 "Anon" cigarettes (10's) .		100	
	27½ lb. "Snowflake" mixture (1 oz.).		100	
			200	
	Less 15% trade discount . .		30	
		26		170
21	A. Green			
	5,000 "Cypher" cigarettes (20's) .		50	
	5,000 "Cypher" cigarettes (10's) .		50	
			100	
	Less 10% trade discount . .		10	
		25		90
	Credit sales account	13		278

LEDGER

25 *Dr.* A. GREEN *Cr.* 25

1952			£				
Nov. 18	To Goods . .	S.1	18				
21	Goods . .	S.1	90				

26 *Dr.* G. MASON *Cr.* 26

1952			£				
Nov. 19	To Goods . .	S.1	170				

13 *Dr.* SALES *Cr.* 13

				1952			£
				Nov. 21	By Sundries .	S.1	278

If it were found expedient to dispense with the sales book, the method of posting accounts direct from documents could be employed. The documents in this case would be the duplicate copies of invoices, and where such copies are not taken, the record afforded by the sales book becomes a necessity.

Returns Outward

Some or all of a particular purchase may be unsatisfactory for various reasons. Wrong or damaged items may have been supplied, or the goods may not have conformed to a sample previously submitted. The purchaser then returns the defective articles to his supplier, and makes a suitable record in his Returns Outward Book (alternatively entitled "Purchases Returns Book"). This may be regarded as a purchase transaction in reverse.

EXAMPLE. From transactions of J. Robbins, Tobacconist.

1952

Nov. 17. Returned to Havana Tobacco Co., Ltd., cigarettes £40. Package damaged in transit.
Returned to Cigarettes, Ltd., cigarettes £50. Wrong strength.

RETURNS OUTWARD BOOK 1

1952			£ s. d.	£ s. d.
Nov. 17	Havana Tobacco Co., Ltd.			
	4,000 "Anon" cigarettes (20's)		40 – –	
	Less 20% trade discount .		8 – –	
	(Damaged in transit)			
		7		32 – –
17	Cigarettes, Ltd.			
	5,000 "Cypher" cigarettes (20's)		50 – –	
	Less 25% trade discount .		12 10 –	
	(Wrong strength)			
		10		37 10 –
	Credit returns outward account .	19		69 10 –

Here the personal accounts are debited, and the total of returns credited in the returns outward account. The ledger account would appear—

7 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 7

1952			£ s. d.				
Nov. 17	To Returns.	R.O.1	32 – –				

10 *Dr.* CIGARETTES, LTD. *Cr.* 10

1952			£ s. d.				
Nov. 17	To Returns.	R.O.1	37 10 –				

19 *Dr.* RETURNS OUTWARD *Cr.* 19

				1952			£ s. d
				Nov. 17	By Sundries.	R.O.1	69 10 –

Returns Inward

When goods are returned from customers the need for a form of record similar to the foregoing again arises.

EXAMPLE. From transactions of J. Robbins, Tobacconist.

1952
Nov. 23. G. Mason returned tobacco £20. Wrong blend.
26. A. Green returned whole of goods sent to him on 18th (badly damaged in transit).

A Returns Inward on Sales Returns Book is now shown containing the necessary entries—

RETURNS INWARD BOOK 1

1952			£	£
Nov. 23	G. Mason			
	5½ lb. "Snowflake" mixture (1 oz.) .		20	
	Less 15% trade discount . ..		3	
	(Wrong blend)			
		26		17
26	A. Green			
	5½ lb. "Snowflake" mixture (1 oz.) .		20	
	Less 10% trade discount . .		2	
	(Damaged in transit)			
		25		18
	Debit returns inward account. . .	20		35

LEDGER

26 *Dr.* G. MASON *Cr.* 26

				1952			£
				Nov. 23	By Returns .	R.I.1	17

25 *Dr.* A. GREEN *Cr.* 25

				1952			£
				Nov. 26	By Returns .	R.I.1	18

20 *Dr.* RETURNS INWARD *Cr.* 20

1952			£				
Nov. 26	To Sundries .	R.I.1	35				

Debit Notes and Credit Notes. Returns outward and returns inward need to be evidenced by documents which are, in general form, similar to invoices. When a purchaser returns goods, he should send his supplier a "Debit Note," and the supplier should in turn send the purchaser a "Credit Note" to cover the amount. The returns received from A. Green on 26th November will be used to illustrate both types

of document. First of all, the debit note sent by A. Green to J. Robbins; this is shown below.

DEBIT NOTE

Telephone: Chesterfield 36450

40 Newbold Road,
Chesterfield.
20th November, 1952.

Mr. J. Robbins,
16 Cavendish Parade,
Chesterfield.

Dr. to A. GREEN

		£	£
5½ lb. "Snowflake" mixture (1 oz.) .		20	
Less 10% trade discount . . .		2	
			18
Goods invoiced by you on 18th November, and collected for credit by your van today.			

The corresponding credit note sent by J. Robbins to A. Green appears below.

CREDIT NOTE

Telephone: Chesterfield 78654

16 Cavendish Parade,
Chesterfield.
21st November, 1952.

Mr. A. Green,
40 Newbold Road,
Chesterfield.

In Account with
J. ROBBINS

		£
By Allowance in respect of goods invoiced on 18th instant and collected by our van for credit on 20th November, 1952. (This covers your debit note of 20th November, 1952.)		18

A. Green would enter up his returns outward book from the copy debit note, which should be filed with the credit note received from Robbins. J. Robbins would make the necessary entry from the copy of the credit note sent by him to Green.

It is important when recording these returns to state the reasons which gave rise to them. Goods damaged during carriage by the railway or other carrier may be the subject of a claim, which would have to be lodged promptly.

Furthermore, a study of these reasons may reveal slackness on the part of the clerical or dispatch staff, poor or insufficient packing, decline in quality, undue delay, or pilfering or some other form of leakage, all of which should be investigated.

The ground covered so far affords a view of the everyday transactions of a business—purchases and sales for cash and on credit, goods returned, discounts allowed, and cash receipts and payments. A few supplementary examples are now given, the first of which shows the Havana Tobacco Company's account as a creditor in J. Robbins's ledger—

7 *Dr.* THE HAVANA TOBACCO CO., LTD. *Cr.* 7

1952			£	1952			£
Nov. 17	To Returns .	R.O.1	32	Nov. 16	By Goods .	P.1	320
30	Balance .	c/d	608	18	Goods .	P.1	320
			640				640
Dec. 4	To cash and discount . .	C.1	288	Dec. 1	By Balance .	b/d	608

A summary of the entries arising from these transactions would reveal the following information—

	Dr. £ s. d.	*Cr.* £ s. d.
Purchases account . . .	640 – –	
Cash paid		280 16 –
Discount received		7 4 –
Returns outward account . .		32 – –
The Havana Tobacco Co., Ltd. .		320 – –
	640 – –	640 – –

The entries to purchases account would of course form part of the monthly bulk entry to that account, but this analysis displays the working of double entry on a small scale, and is

entirely representative of the larger result which a monthly or other periodical series of transactions would render.

The ledger account of a debtor (A. Green) compiled from the previous particulars would appear—

25 *Dr.* A. GREEN *Cr.* 25

1952			£	1952			£
Nov. 18	To Goods	S.1	18	Nov. 26	By Returns	R.I.1	18
21	Goods	S.1	90	30	Balance c/d		90
			108				108
Dec. 1	To Balance b/d		90				

In this example, no cash has been received, the debtor has received goods value £108, returned £18 worth, and is showed as still owing £90.

Summarizing as before, these transactions can be resolved as—

	Dr. £	*Dr.* £
Sales account		108
Returns inward account	18	
A. Green's account	90	
	108	108

Reviewing the books of account dealt with so far, the following information will be found to be readily ascertainable—

1. *From the cash book.* The opening balances of cash in hand and at bank, particulars and amounts of receipts and payments, discounts allowed and received, and balances at the end of the period. Furthermore, the cash available at any time may be ascertained quickly and easily.

2. *From the purchases book.* Particulars and amounts of credit purchases effected during the period, and amounts of trade discount received.

3. *From the sales book.* The total of credit sales for the period, and the trade discount allowed.

4. *From the returns outward book.* Particulars and amounts of goods returned to suppliers, and the reasons for the returns.

5. *From the returns inward book.* Particulars, amounts and reasons.

6. *From the ledger.* When all the postings from the above

books have been made, each personal account will show the amount owing to or from the person in question, and each transaction will be recorded in tabloid form.

The ledger will also disclose particulars of the various assets, expenses and income.

The principal books of account are the ledger and the cash book. (As already stated, the cash book is really a part of the ledger.)

The purchases and sales books, and the returns inward and outward books are subsidiary to the ledger. Such books are referred to as "subsidiary books," and their function is to assist in the keeping of the ledger.

EXERCISE IV

1. Explain why the subsidiary books alone are inadequate for practical purposes.

2. Describe fully the services which the subsidiary books perform.

3. State fully the particulars which should appear in the sales day book in respect of each sale entered and explain how this book is posted to the ledger.

4. Explain how accounts are subdivided to enable a large volume of transactions to be recorded efficiently.

5. Explain why it is important when recording returns to give the reason which gave rise to them.

6. What advantages are there in keeping a ledger in addition to the subsidiary books?

7. George McArthur is commencing business as a dealer in gramophone and radio accessories. His business will consist of both credit and cash sales and purchases. Submit a list of the books you would recommend McArthur to keep.

8. J. Anderson & Co., Ltd., of 1065 Victoria Street, York, bought the following goods from H. Masters & Co., of 398 Green Street, Bedford, on 31st January, 1951—

1 dozen carpets at £10 each, subject to 10 per cent trade discount.
1 gross hardwood chairs at 25s. each.
6 wardrobes at £12 each.

The whole invoice was subject to 5 per cent cash discount if paid during the month following.

You are required to show—

(*a*) The invoice sent with the goods.

(*b*) The cheque drawn by J. Anders on& Co., Ltd., on the Provincial Bank, Ltd., York, in payment for the goods, assuming that advantage was taken of the discount terms. (*R.S.A.*)

9. State what information is contained in the following account of John Smith in the ledger of Thomas Jones, tobacconist—

6 *Dr.* JOHN SMITH *Cr.* 6

1951			£	1951			£
Jan. 1	To Balance .	b/d	100	Jan. 3	By Returns .	R.I.1	20
2	Goods . .	S.1	50	4	Cash . .	C.1	100
				5	Balance .	c/d	30
			150				150
Jan. 6	To Balance .	b/d	30				

10. Explain the specific meaning attaching to the terms "purchase" and "sale" in book-keeping.

11. The following were credit transactions of G. Cooper, a cloth merchant. Enter them in the proper subsidiary books and state the quantity and value of each grade of cloth in stock at the close of business on 5th January, 1952—

1952

Jan. 1. Bought from C. Hughes 180 yd. of No. 1 cloth at 10s. per yd.
Bought from R. Williams 60 yd. of No. 2 cloth at 8s. per yd.
Bought from S. Street 50 yd. of No. 3 cloth at 21s. per yd.

2. Sold to M. Roberts 20 yd. of No. 1 cloth at 15s. per yd.
Sold to R. Thomas 10 yd. of No. 2 cloth at 12s. per yd.
Sold to H. White 15 yd. No. 2 cloth at 10s. per yd.
Returned to C. Hughes 40 yd. of No. 1 cloth at 10s. per yd.

5. Received a credit note from S. Street of 1s. per yd. in respect of 25 yd. of No. 3 cloth bought on 1st January, the material being slightly defective.

No ledger accounts are required.

CHAPTER V

THE JOURNAL

In the preceding chapters care has been taken to use the terms "purchases" and "sales" only when referring to the purchase and sale of goods *in which the business deals*.

If this were not done, and items such as purchases and sales of assets *on credit*, expenses incurred *but not paid*, or gains accrued *but not received*, were included among ordinary trading transactions, the resultant total figures would be very misleading.

These items, together with others of a nature disqualifying them for entry in the cash book or in the books already mentioned, may be accommodated in another subsidiary called the journal, which in the early days of double-entry book-keeping was the only book used to record transactions for posting to the ledger. Owing to the variety of its contents, each entry in the journal must be accompanied by a short description termed a "narration."

Purchase and Sale of Assets on Credit

The following will show how such a transaction affects the books of the buyer and the seller—

Example. On 5th August, 1952, T. Jones, retail chemist, buys on credit a second-hand counter, value £50, from R. Smart, another shopkeeper. Show the entries in the books of both traders. (To improve the illustration, let it be assumed that before the transaction the assets represented by debit balances in Fixtures and Fittings accounts were T. Jones £600, and R. Smart £800.)

Now, if this had been a cash transaction, entries would have been made in the cash books of Jones and Smart, followed by appropriate postings to accounts in their ledgers. But the transaction as described has to show not only the effect on the assets of the parties concerned but the state of debtor and creditor which arises at the same time.

JOURNAL OF T. JONES 4

1952				£	£
Aug. 5	Fixtures and Fittings	*Dr.*	15	50	
	To R. Smart		21		50
	Purchase of second-hand counter				

JOURNAL OF R. SMART 9

1952				£	£
Aug. 5	T. Jones	*Dr.*	38	50	
	To Fixtures and Fittings . . .		12		50
	Sale of counter during extensions to premises.				

In these journal entries, the first line contains the name of the account to be debited, with the abbreviation "Dr." at the end of the line; the amount is inserted in the first or debit column. The account to be credited is shown on the second line, and the amount entered against it in the second or credit column. The narration is then written in, and a line drawn under it to the full extent of the wide column. The usual folio column is provided.

The ledger entries would be as follows—

15 *Dr.* FIXTURES AND FITTINGS (in T. Jones's ledger) *Cr.* 15

1952			£	1952			£
Aug. 1	To Balance . .	b/d	600				
5	R. Smart .	J.4	50				

21 *Dr.* R. SMART (in T. Jones's ledger) *Cr.* 21

				1952			£
				Aug. 5	By Fixtures and Fittings .	J.4	50

12 *Dr.* FIXTURES AND FITTINGS (in R. Smart's ledger) *Cr.* 12

1952			£	1952			£
Aug. 1	To Balance . .	b/d	800	Aug. 5	By T. Jones . .	J.9	50

38 *Dr.* T. JONES (in R. Smart's ledger) *Cr.* 38

1952			£				
Aug. 5	To Fixtures and Fittings .	J.9	50				

T. Jones's ledger now shows an increase in the value of fixtures and fittings of £50, and the debt owing to R. Smart, while the latter's ledger registers a decrease of £50 in the value of fixtures and fittings compensated by an equivalent debt owing from T. Jones.

The use of the journal for the recording and posting of transactions is called "journalizing." In common with the other books subsidiary to the ledger, it is referred to as a book of "prime entry," and the fact, already stated, that originally it was the only book of this nature testifies to the extensiveness of the functions it is available to perform.

The practice of journalizing transactions, either mentally or in writing, is strongly recommended as an exercise calculated to develop a complete understanding of the principles of double-entry book-keeping and to increase the capacity for dealing quickly with problems as they arise.

A variety of examples may now be found helpful.

Commencement of Business. Assuming that a person commences business on 1st January, 1953, with the following assets representing his capital—

	£
Cash in hand	200
Cash at bank	1,500
Motor lorry valued at	300
Lease of premises valued at	1,000
Fixtures and fittings	150

The first entry in his journal will deal with these assets—

JOURNAL

1953			£	£
Jan. 1	Cash in Hand	*Dr.*	200	
	Cash at Bank		1,500	
	Motor Lorry		300	
	Lease of Shop		1,000	
	Fixtures and Fittings		150	
	To Capital			3,150
	Being assets, liabilities and capital at this date.			

When postings from this entry have been completed, the cash book will show on the debit side the amounts in hand and

at bank, and in the ledger will appear as debits the value of the assets, motor lorry, lease of shop, and fixtures and fittings, with capital as the only credit item so far.

Then, as soon as actual trading starts, the recording of purchases and sales and their subsequent postings to ledger accounts will be done in the manner already described.

Correction of Errors. Errors happen occasionally, and red ink corrections can be avoided by the use of journal entries.

Assume that a book-keeper unfortunately debits the rent account with £50 paid as wages on 5th September, 1952, the accounts would then appear—

5 *Dr.*			RENT				*Cr.* 5
1952 Sept. 5	To Cash . .		£ 50				

6 *Dr.*			WAGES				*Cr.* 6

This can be rectified by a journal entry—

JOURNAL 9

1952			£	£
Sept. 5	Wages . . . . . *Dr.*		50	
	To Rent			50
	Being correction of entry posted in error.			

The posting of these amending entries will result in—

5 *Dr.*			RENT					*Cr.* 5
1952 Sept. 5	To Cash . .		£ 50	1952 Sept. 5	By Wages . .	J.9	£ 50

6 *Dr.*			WAGES				*Cr.* 6
1952 Sept. 5	To Rent . .	J.9	£ 50				

The wrong entry to the debit of rent account has been neutralized and the expenditure shown under its correct heading.

Assume that another error was made on 10th November, 1952, and that this time a payment of £10 in settlement of a balance outstanding was debited to Havana Tobacco Co., Ltd., instead of to Cigarettes, Ltd. Here are the ledger accounts before amendment—

18 *Dr.* CIGARETTES, LTD. *Cr.* 18

				1952 Nov. 1	By Balance . .	c/d	£ 10

19 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 19

1952 Nov. 10	To Cash . .		£ 10				

This would be the necessary journal entry—

JOURNAL 6

			£	£
1952 Nov. 10	Cigarettes, Ltd. . . . . *Dr.*	18	10	
	To Havana Tobacco Co., Ltd. .	19		10
	Being correction of entry posted in error.			

The ledger accounts after amendment—

18 *Dr.* CIGARETTES, LTD. *Cr.* 18

1952 Nov. 10	To Havana Tobacco Co., Ltd. .	J.6	£ 10	1952 Nov. 1	By Balance . .	c/d	£ 10

19 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 19

1952 Nov. 10	To Cash . .		£ 10	1952 Nov. 10	By Cigarettes, Ltd	J.6	£ 10

The Havana Tobacco Co.'s account has reverted to its original state, and the debt owing to Cigarettes, Ltd., has been shown as settled.

If the error just described had been a wrong credit instead of a wrong debit, it would be necessary for the journal entry to debit Havana Tobacco Co., Ltd., and credit Cigarettes, Ltd.

Bad Debts. When a debt cannot be recovered, because of bankruptcy or other default on the part of the debtor, such sums must be cleared from the books, and the debts are "written off." A batch of these is so treated in the journal entry now shown—

JOURNAL

1952			£	£
Jan. 1	Bad Debts	*Dr.*	190	
	To Sundries			
	T. Jones			50
	S. Walters			100
	R. Mason			40
	Being debts written off as irrecoverable.			

Such an entry will, on posting to the personal ledger accounts, cancel the record of the debts owing by credits equal in amount to the loss which will be disclosed as a debit under the heading of "Bad Debts."

Returns Inward and Outward. Where these occur infrequently the opening of the special books mentioned may not be justified. Journal entries will suffice, debiting creditors when goods are returned to them, and crediting debtors when the reverse obtains.

Composite Entries. This is a term used in connection with journal entries which involve the debiting or crediting of more than one account. Examples are shown under "Commencement of Business" and "Bad Debts." The use of these collective entries wherever possible saves time and avoids unnecessary detail.

The foregoing examples will have served to demonstrate the flexibility and extreme usefulness of the journal for dealing with a large variety of book-keeping problems.

EXERCISE V

1. In which accounts of John Mensing, a timber merchant, and on which side of such accounts would you expect to find the following transactions—

(*a*) Bought on credit from L. T. Engineering Co. a gas engine, value £64.

(*b*) £100 lent to G. Phillips at 5 per cent per annum interest.

(*c*) A credit note for £8 sent to A. Woodman.

(*d*) £15 paid by cheque by J. Mensing for repairs to his private house.

2. Explain how double entry is effected in the ledger from the sales book, purchases book, returns inward book, returns outward book, and journal.

3. Give journal entries recording the following in the books of C. Raine, a tailor—

1951

Mar. 3. The correction of £23, paid to P. Duke and posted in error to F. Mason's account.

10. The receipt of £5 cash, and a mirror valued at £5 10s. from B. Cooper in settlement of a debt of £10 10s., which the latter owed for a suit supplied by C. Raine. (*R.S.A.*)

4. J. Rogers started in business on 1st January, 1951. His capital at that date was £3,000 cash at bank. On 31st December, 1951, his financial position was as follows: Plant and Machinery £2,500; Sundry Debtors £1,030; Sundry Creditors £855; Cash in hand £25; Bank overdraft £350; Stock £1,200. You are required to—

(*a*) Show J. Rogers's position on 31st December, 1951, by means of a journal entry.

(*b*) Calculate the profit made by J. Rogers during the year, taking into consideration the fact that he had withdrawn £480 from his business bank account as "Drawings." (*R.S.A.*)

5. Give journal entries to record the following in the books of G. Marsh, a cardboard-box maker—

1951

April 23. A. Planer & Co. supplied new machinery costing £250 and repaired an old cutting machine for £2 10s.; the whole account was to be paid by 30th June, 1951.

May 14. G. Marsh took goods from stock worth £38 for his personal use.

June 30. Cardboard sheets worth £50 were returned to F. Mason as "not up to sample." (*R.S.A.*)

6. Correct by journal entries the following errors in the books of a builder—

1951

May 15. £17 10s. received from D. Perkins posted to the account of P. Dawes.

May 17. £33 expended by proprietor on private expenses posted to office expenses account.
18. £26 cash received for the sale of a horse, posted to sales account. (*R.S.A.*)

7. Give the journal entries necessary to correct the following errors—

(*a*) £200 posted in error to debit of office fittings instead of machinery.

(*b*) Cash purchases £150 posted from the cash book to the debit of A. Reed's account. (*R.S.A.*)

8. Record the following transactions in the books of George Hatton, a retail fish merchant—

1951
May 1. Bought new pair of scales valued £100 on credit from Balances, Ltd.
10. Sold old set of knives valued £10 on credit to John Smith.
12. Exchanged old van, valued £200, and £400 cash for a new van.

9. Make journal entries necessary to record or adjust the following—

(*a*) Cash sales £60 posted from the cash book to the credit side of L. Partington's account.

(*b*) Damaged goods £10 received from J. Stone were returned to him.

(*c*) A withdrawal from bank of £40 for office purposes has been treated as personal drawings in the books of J. Fleming, greengrocer.

10. Give journal entries recording the following in the books of S. Simon, a baker—

1951
Dec. 27. Shop fittings valued at £45 and flour worth £65 received in exchange for a delivery van priced £110.
28. The correction of an entry by which £40 rent paid for his private house was posted to the shop rent account.
A credit note for £22 sent to Goodfare, Ltd., in respect of goods returned. (*R.S.A.*)

CHAPTER VI

A WORKED EXAMPLE

With the object of bringing into perspective the various book-keeping principles treated so far, a worked example embodying these will now be given.

On 1st December, 1952, J. Robbins commenced business as a tobacconist, and opened a banking account in the name of the business, paying in the sum of £800. His cash in hand (in the shop till) was £20.

Record the above financial position, enter the following transactions in the proper subsidiary books, and post to the ledger—

1952

Dec. 1. Cash sales £40.

2. Bought on credit from Havana Tobacco Co., Ltd., cigarettes £400 *less* 20 per cent trade discount.

3. Bought on credit from Cigarettes, Ltd., cigarettes and tobacco £300 *less* 25 per cent trade discount.
   Sold on credit to A. Green, tobacco £20 *less* 10 per cent trade discount.
   Cash sales £50.

4. Sold on credit to G. Mason, tobacco and cigarettes £200 *less* 15 per cent trade discount.
   Returned to Havana Tobacco Co., Ltd., cigarettes £40. Package damaged in transit.
   Paid Havana Tobacco Co., Ltd., by cheque, amount due to them *less* 2½ per cent cash discount.
   Bought Dunehill pipes value £10; paid by cheque, receiving 2½ per cent cash discount.
   Bought two delivery vans for £200, paying by cheque.
   Cash sales £70.
   Bought on credit from Havana Tobacco Co., Ltd., cigarettes £400 *less* 20 per cent trade discount.

5. Sold on credit to A. Green, cigarettes £100 *less* 10 per cent trade discount.
   Bought new pair of scales value £100 on credit from A. Britt & Sons, Ltd.
   Returned to Cigarettes, Ltd., cigarettes £50; wrong brand.
   Paid Cigarettes, Ltd., by cheque, £100 on account.
   G. Mason returned tobacco, wrong blending, £20.

Dec. 5. A. Green returned the whole of the goods dispatched on 3rd December, which were badly damaged in transit.
Cash sales, £100.
6. Sold one van to Swallows for £100, receiving cheque in settlement, which was paid into bank.
Paid rent £10, in cash.
Cash sales £100.
Paid salaries £40, in cash.
Paid for advertising, cash £2.
Transferred to bank £260.

Full details of goods bought and sold are not necessary for the purposes of this illustration.

JOURNAL 1

1952			£	£
Dec. 1	Cash in hand . . . . *Dr.*	C.1	20	
	Cash at bank	C.1	800	
	To Capital	1		820
	Being assets, liabilities and capital at this date.			
5	Fixtures and fittings . . *Dr.*	3	100	
	To A. Britt & Sons, Ltd. . .	4		100
	Being purchase of a new pair of scales on credit.			

PURCHASES BOOK 1

1952			£	£
Dec. 2	Havana Tobacco Co., Ltd.			
	Cigarettes		400	
	Less 20 per cent trade discount .		80	
		5		320
3	Cigarettes, Ltd.			
	Cigarettes and Tobacco . . .		300	
	Less 25 per cent trade discount .		75	
		6		225
4	Havana Tobacco Co., Ltd.			
	Cigarettes		400	
	Less 20 per cent trade discount .		80	
		5		320
	Debit purchases account . . .	13		865

SALES BOOK

1952			£	£
Dec. 3	A. Green			
	Tobacco		20	
	Less 10 per cent trade discount		2	
		7		18
4	G. Mason			
	Cigarettes and tobacco		200	
	Less 15 per cent trade discount		30	
		8		170
5	A. Green			
	Cigarettes		100	
	Less 10 per cent trade discount		10	
		7		90
	Credit sales account	14		278

RETURNS OUTWARD BOOK 1

1952			£ s. d.	£ s. d.
Dec. 4	Havana Tobacco Co., Ltd.			
	Cigarettes (damaged in transit)		40 – –	
	Less 20 per cent trade discount		8 – –	
		5		32 – –
5	Cigarettes, Ltd.			
	Cigarettes (wrong brand)		50 – –	
	Less 25 per cent trade discount		12 10 –	
		6		37 10 –
	Credit returns outward account	16		69 10 –

RETURNS INWARD BOOK 1

1952			£	£
Dec. 5	G. Mason			
	Tobacco (wrong blend)		20	
	Less 15 per cent trade discount		3	
		8		17
5	A. Green			
	Tobacco (damaged in transit)		20	
	Less 10 per cent trade discount		2	
		7		18
	Debit returns inward account	15		35

CASH BOOK

1 *Dr.* *Cr.* 1

1952			Discount £ s. d.	Cash £ s. d.	Bank £ s. d.	1952			Discount £ s. d.	Cash £ s. d.	Bank £ s. d.
Dec. 1	To Balance . .	J.1		20 – –	800 – –	Dec. 4	By Havana Tobacco Co., Ltd. . . .	5	7 4 –		280 16 –
	Sales . . .	14		40 – –			Purchases . .	13	5 –		9 15 –
3	Sales . . .	14		50 – –			Delivery Vans .	2			200 – –
4	Sales . . .	14		70 – –			Cigarettes, Ltd. .	6			100 – –
5	Sales . . .	14		100 – –		5					
6	Delivery Van . .	2			100 – –	6	Rent . . .	9		10 – –	
	Sales . . .	14		100 – –			Salaries . . .	10		40 – –	
	Cash . . .	C			260 – –		Advertising . .	11		2 – –	
							Bank . . .	C		260 – –	
								12	7 9 –		
							Balances . .	c/d		68 – –	569 9 –
				380 – –	1,160 – –					380 – –	1,160 – –
Dec. 7	To Balances . .	b/d		68 – –	569 9 –						

Entries have now to be made in the appropriate ledger accounts, and it will be noted in doing so that the cash book, while basically a part of the ledger, serves also as a subsidiary book of account.

By way of recapitulation, the various postings will now be described—

Journal

From debit column to debit side of ledger account.

From credit column to credit column of ledger account.

This naturally follows because the entries deal with actual debit or credit balances, or because they show the actual order in which the posting has to be made.

Sales Book

Debit accounts of persons to whom goods are sold on credit.

Credit total sales in sales account.

It will be noted how this follows the rules for posting, the persons receiving the goods being debited, the nominal account being credited as recording a gain.

Purchases Book

Credit accounts of persons from whom goods are bought on credit.

Debit total purchases in purchases account.

Here the persons parting with the goods are credited, and the nominal account debited with the expenses represented by purchases.

Returns Inward Book

Credit persons returning goods.

Debit total returns in returns inward book.

Note how the rules are similar to purchase procedure—the goods are coming in to the firm.

Returns Outward Book

Debit persons to whom goods returned. Credit total returns in returns outward book.

Here the resemblance is to sales procedure.

Cash Book

Debit entries are posted to credit of ledger accounts, and credit entries to the debit of ledger accounts, combining cash and discount items into one composite ledger entry.

The total of discount is posted to the credit of the ledger account of that title.

No discount has been allowed. If there had been, the total would have been posted to the debit of Discount Allowed account in the ledger.

It will be remembered that payments of cash into bank affect the cash book only, and do not alter the total cash situation. The entry in the cash book folio columns in this case takes the form of a letter "C" (abbreviation for "contra," meaning "on the other side"). They are referred to as "contra entries."

LEDGER

1 *Dr.* CAPITAL *Cr.* 1

				1952 Dec. 1	By Sundries .	J.1	£ 820

2 *Dr.* DELIVERY VANS *Cr.* 2

1952 Dec. 4	To Cash . .	C.1	£ 200	1952 Dec. 6	By Cash . .	C.1	£ 100
					Balance .	c/d	100
			200				200
Dec. 7	To Balance .	b/d	100				

3 *Dr.* FIXTURES AND FITTINGS *Cr.* 3

1952 Dec. 5	To A. Britt & Sons, Ltd.	J.1	£ 100				

4 *Dr.* A. BRITT & SONS, LTD. *Cr.* 4

				1952 Dec. 5	By Fixtures and Fittings .	J.1	£ 100

5 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 5

1952			£	1952			£
Dec. 4	To Returns .	R.O.1	32	Dec. 2	By Goods . .	P.1	320
	Cash and Discount .	C.1	288	4	Goods . .	P.1	320
6	Balance .	c/d	320				
			640				640
				Dec. 7	By Balance .	b/d	320

6 *Dr.* CIGARETTES, LTD. *Cr.* 6

1952			£ s. d.	1952			£ s. d.
Dec. 5	To Returns .	R.O.1	37 10 –	Dec. 3	By Goods .	P.1	225 – –
	Cash .	C.1	100 – –				
6	Balance .	c/d	87 10 –				
			225 – –				225 – –
				Dec. 7	By Balance .	b/d	87 10 –

7 *Dr.* A. GREEN *Cr.* 7

1952			£	1952			£
Dec. 3	To Goods . .	S.1	18	Dec. 5	By Returns .	R.I.1	18
5	Goods . .	S.1	90	6	Balance .	c/d	90
			108				108
Dec. 7	To Balance .	b/d	90				

8 *Dr.* G. MASON *Cr.* 8

1952			£	1952			£
Dec. 4	To Goods . .	S.1	170	Dec. 5	By Returns .	R.I.1	17
				6	Balance .	c/d	153
			170				170
Dec. 7	To Balance .	b/d	153				

9 *Dr.* RENT *Cr.* 9

1952			£
Dec. 6	To Cash . .	C.1	10

10 *Dr.* SALARIES *Cr.* 10

1952			£
Dec. 6	To Cash . .	C.1	40

11 *Dr.* ADVERTISING *Cr.* 11

1952			£				
Dec. 6	To Cash . .	C.1	2				

12 *Dr.* DISCOUNT RECEIVED *Cr.* 12

				1952			£ s. d.
				Dec. 6	By Sundries .	C.1	7 9 –

13 *Dr.* PURCHASES *Cr.* 13

1952			£	1952			£
Dec. 4	To Cash and Discount .	C.1	10	Dec. 6	By Balance .	c/d	875
6	Sundries .	P.1	865				
			875				875
Dec. 7	To Balance .	b/d	875				

14 *Dr.* SALES *Cr.* 14

1952			£	1952			£
Dec. 6	To Balance .	c/d	638	Dec. 1	By Cash . .	C.1	40
				3	Cash . .	C.1	50
				4	Cash . .	C.1	70
				5	Cash . .	C.1	100
				6	Cash . .	C.1	100
					Sundries .	S.1	278
			638				638
				Dec. 7	By Balance .	b/d	638

15 *Dr.* RETURNS INWARD *Cr.* 15

1952			£				
Dec. 6	To Sundries .	R.I.1	35				

16 *Dr.* RETURNS OUTWARD *Cr.* 16

				1952			£ s. d.
				Dec. 6	By Sundries .	R.O.1	69 10 –

An examination of these ledger accounts will reveal that they all are shown in a compact form affording easy reference at any time. The following points should be noted—

1. The calendar year should be shown at the top of the date column of each folio.

2. The use of the word "To" on the debit side and "By" on the credit side.

3. The name of the month, and the words "To" and "By" are mentioned only once in each balance period. Ditto signs are dispensed with, as they tend to become untidy. Dates of the month are not repeated.

4. The use of the abbreviations "c/d" for "carried down" and "b/d" for "brought down."

5. Every entry in a column should be directly under that on the preceding line; in the purchases account shown in the worked example, the "S" of Sundries should be under the "C" of Cash.

6. The convenience afforded by periodical balancing of the ledger accounts, which discloses the state of the account without resort to periodically finding the grand total of the columns. The terms "debit balance" and "credit balance" refer to balances *as brought down*, and not to these figures where they appear above the total rules.

[To illustrate some of the foregoing points the accounts have been balanced, although this was not called for in the question.]

Loose-leaf and Card Ledgers

Ledgers in this form can help to simplify book-keeping and to effect further subdivision of work whenever required.

A great disadvantage of bound types of ledger is that they cannot be rearranged to meet altered requirements, and the allocation of a correct number of folios to each account is at best inspired guesswork. A loose-leaf ledger permits of exact allocation of folios, rearrangement of accounts, and removal of out-of-date matter.

Card ledgers, as their name suggests, take the form of ledger cards in place of ledger sheets. They are particularly useful for recording personal accounts, and may be kept in any desired order, full cards or "dead" cards being removed and filed separately. It will be readily seen that such a system makes subdivision of work an easy matter. The ruling of these cards deviates at times from standard ledger ruling, a popular form having the debit and credit columns side-by-side after the fashion of a journal. This does not, of course, involve any departure from the usual book-keeping rules. Card ledgers are usually entered up by book-keeping machines, and the

arrangement of columns varies to suit the system or the organization, but the debit column is always to the left of the credit column.

Division of the Ledger

In practice (and this applies whether card ledgers or ledgers in book form are used), the ledger is usually divided into volumes or divisions as follows—

1. *Private Ledger*, containing particulars of capital accounts, partners' drawings, and other private accounts.
2. *Purchases Ledger*, sometimes called Bought or Creditors' Ledger, containing accounts of suppliers.
3. *Sales Ledger*, or Debtors' Ledger, containing the accounts of customers.
4. *General Ledger*, containing real and nominal accounts; this is sometimes referred to as the "Nominal Ledger" even though real accounts are among its contents.

When posting to the various ledgers, entries in the folio columns of subsidiary books will need to indicate the volume affected. This can be done by prefixing the account number by a suitable abbreviation.

It will now be appreciated that the various tasks attached to keeping a set of account books may be divided among several persons, according to the volume of work involved.

For example, the cash book and each of the subsidiary books may be kept by different clerks. The ledger, if suitably subdivided, may have a ledger clerk for each of its sections, who will perform the necessary posting.

The system is quite elastic; when an increase in the number of transactions calls for the employment of additional staff, further subdivisions of the books and fresh allocations of work may be made.

EXERCISE VI

1. Explain the purpose of balancing the accounts from time to time during the trading period.
2. Explain the term "posting the ledger" and how the double-entry is effected from the cash book, including the cash discount.

3. Describe a system of subdividing the ledger which will allow posting to be performed by several clerks.

4. It is said that the proprietor's capital is represented by the excess of the assets of a business over its liabilities. Can you justify this statement?

5. (*a*) *Sales Ledger*

Dr.	Mr. Edwards	*Cr.*
To Goods	£25	

(*b*) *Bought Ledger*

Dr.	H. Williams	*Cr.*
To Returns	£10	

The above entries are in a trader's ledgers. State where you would expect to find the credit entries making the double entry in each case. Give your answer in the following form—

Name of ledger. *Name of account.* *Subsidiary book used (if any).*

(*a*)

(*b*) (*R.S.A.*)

6. In which ledger accounts would you expect to find the following information recorded?

(*a*) Goods returned by customers during the year.

(*b*) Cash discounts allowed to customers during the year.

(*c*) Carriage on sales. (*R.S.A.*)

7. State clearly and concisely the difference in treatment of trade discount obtained on the purchases of a firm, and cash discount allowed by its creditors. (*R.S.A.*)

8. What is the principal book of account employed by a trader? What are the functions of this book, and how many different classes of account would you expect to find in it?

9. Enter the following in a three-columned cash book—

1951

Jan. 1. £300 paid in by the proprietor, C. Roberts, on commencing business. Of this amount £200 was banked and £100 was put into the office cash box.

2. An amount of £37 due to W. Jones for purchases on credit was settled by cheque, after deducting 7½ per cent cash discount.

3. Bought goods £37 10s. less trade discount 7½ per cent and paid cash for them.

4. Cash sales £40, of which £30 was banked.
R. Smith, who owed £80 on an invoice subject to 10 per cent trade discount and 5 per cent cash discount, settled his account by cheque.

5. Drew and cashed cheque for £25, and paid wages of that amount.
Paid, from office cash, butcher's bill (private expenses) £6 2s. 8d. and £19 for an office safe.

No ledger accounts are to be opened, but you are required to state against each item the name of the account to which it would be posted. Close the cash book and bring down the balances as on 5th January, 1951. (*R.S.A.*)

10. (*a*) A builder extended his freehold premises, and on 31st December, 1951, he decided to transfer £120 from wages account and £80 from purchases account for the labour and material used in building the extension. Give the journal entry required to record these transfers.

(*b*) Show by journal entry the correction on 31st December, 1951, for purchases valued at £100 from C. L. Gillor but credited in error to the account of C. G. Gulland.

(*c*) In making a payment to a creditor, A. Gorton, £10 was deducted as cash discount. It was learned later that this deduction could not be allowed. Give the journal entry to record the disallowance of the discount. (*R.S.A.*)

11. Give the journal entries required to correct the following errors in the books of S. Elf, a fishmonger—

(*a*) Drawings of £50 by S. Elf on 17th June, 1951, posted to wages.

(*b*) Purchases on credit from J. Huggins on 19th June, 1951, £17 10s. posted in both accounts as £10 17s.

(*c*) £75 received on 21st June, 1951, for the sale of a motor van, posted to Motor Expenses account. (*R.S.A.*)

12. You are required to show, by means of journal entries, how the following transactions should be dealt with in the books of F. Street, a horse dealer—

1951

Feb. 1. F. Street gave a horse valued at £45 in exchange for a motor van of the same value.

3. F. Street received credit from Cornchandlers, Ltd., £15, for fodder returned.

13. The following are entries in the books of W. Wills of three entirely separate transactions. What were the transactions?

(*a*) *Sales Ledger*

Dr.	C. South	*Cr.*
	By Cash	£58

(*b*) *Nominal Ledger*

Dr.	Discount Account	*Cr.*
	By S. Simon	£3

(*c*) *Bought Ledger*

Dr.	A. Brown	*Cr.*
To Allowance £43		

(*R.S.A.*)

14. Explain what is recorded by each of the items shown in the following account in B. Smith's ledger—

Dr. F. BLACK *Cr.*

1952		£	s.	d.	1952		£	s.	d.
July 18	To Cash . .	47	10	–	July 1	By Balance . .	50	–	–
	Discount . .	2	10	–	28	Goods . .	73	–	–
	Returns . .	4	–	–					
31	Balance . c/d	69	–	–					
		123	–	–			123	–	–
					1952				
					July 31	By Balance . b/d	69	–	–

(*R.S.A.*)

CHAPTER VII

THE TRIAL BALANCE

It has now been demonstrated that in double-entry book-keeping there appear in the ledger two entries for each transaction, a debit and a credit, and that, as a consequence, the total of the entries on the debit side should equal the total of the entries on the credit side.

Thus one way of proving that double entry had been effected would be to add up both sides of the ledger *and* the cash book (cash and bank columns) and if total debits equalled total credits the agreement would give the required proof.

There is, however, no need to go to this extent. An addition of the differences or balances of accounts appearing on one side of the ledger and cash book should agree with the total of those appearing on the other; nothing new has been introduced by balancing the accounts. The schedule of balances drawn up to show this agreement is called a Trial Balance, and the ledger and cash book entries made as the result of the following transactions will provide an example on a small scale—

1952

Dec. 2. Bought on credit from Havana Tobacco Co., Ltd., cigarettes value £320 after deducting trade discount.

4. Sold on credit to G. Mason, tobacco and cigarettes value £160 after deducting trade discount.
   Paid Havana Tobacco Co., Ltd., on account, £120.

6. Received from G. Mason, on account, £100.

7 *Dr.* HAVANA TOBACCO CO., LTD. *Cr.* 7

1952			£	1952			£
Dec. 4	To Cash . .	C.6	120	Dec. 2	By Goods . .	P.1	320

8 *Dr.* G. MASON *Cr.* 8

1952			£	1952			£
Dec. 4	To Goods . .	S.1	160	Dec. 6	By Cash . .		100

9 *Dr.* PURCHASES *Cr.* 9

1952			£				
Dec. 2	To Havana Tobacco Co., Ltd. .	P.1	320				

10 *Dr.* SALES *Cr.* 10

				1952			£
				Dec. 4	By Goods . .	S.1	160

6 CASH BOOK (showing bank column only) 6

1952			£	1952			£
Dec. 6	To F. Mason .	7	100	Dec. 4	By Havana Tobacco Co., Ltd. .	7	120

The debit columns and the credit columns of the above accounts as they stand total £700, but by using only the balances the result can be shown in the following form—

	Dr. £	*Cr.* £
Havana Tobacco Co., Ltd.		200
G. Mason	60	
Purchases	320	
Sales		160
Cash		20
	380	380

In actual practice, a trial balance may consist of quite a large number of items, but no new principle will be involved in its construction.

A fuller example is provided by constructing a trial balance from the ledger balances of the worked example given in the previous chapter. These are reproduced—

TRIAL BALANCE OF J. ROBBINS, TOBACCONIST
AT 6th DECEMBER, 1952

	Dr. £ s. d.	*Cr.* £ s. d.
Capital		820 – –
Delivery Van	100 – –	
Carried forward	100 – –	820 – –

	Dr. £	s.	d.	Cr. £	s.	d.
Brought forward	100	–	–	820	–	–
Fixtures and Fittings	100	–	–			
A. Britt & Sons, Ltd.				100	–	–
Havana Tobacco Co., Ltd.				320	–	–
Cigarettes, Ltd.				87	10	–
A. Green	90	–	–			
G. Mason	153	–	–			
Rent	10	–	–			
Salaries	40	–	–			
Advertising	2	–	–			
Discount Received				7	9	–
Purchases	875	–	–			
Sales				638	–	–
Returns Inward	35	–	–			
Returns Outward				69	10	–
Cash in Hand	68	–	–			
Cash at Bank	569	9	–			
	2,042	9	–	2,042	9	–

The agreement of the trial balance just shown proves that the total of debits in cash book and ledger equals the total credits, and that is all. The result is arithmetically correct, yet may contain errors notwithstanding.

The more common errors, however, have to do with disagreement of the totals, and as those errors usually arise from simple causes, they will be dealt with first.

A frequent error is the result of failure to complete the double entry, which can happen in several ways. Some of the more common errors are dealt with below—

Cash Book. A glance at the folio column of this book should show instantly whether posting of an item to the ledger has been omitted. Discounts allowed and discounts received must, of course, appear as a debit and a credit respectively in their appropriate ledger accounts. Other prudent precautions are to see that the balances are brought forward correctly from the previous month, that each column is correctly totalled, and, moreover, that the cash and bank columns on the debit side agree with their counterparts on the credit side.

Purchases Book. Here again the folio column will immediately disclose posting omissions. Faulty arithmetic may give a wrong total of purchases, or the posting of this

total to the debit of purchases account in the ledger may have been completely overlooked.

Sales Book. The possible errors here may be very similar to those connected with the purchases book. In this case care must be taken not to leave out the posting of total sales to the credit of sales account in the ledger.

Returns Outward and Inward. These accounts in their operation so closely resemble sales and purchases that they are subject to the same type of error.

Journal. Here again the folio column will be of service.

Occasionally, errors are of a more deep-seated kind than those already mentioned.

Assume that a trial balance has been drawn up and the two columns do not agree, and that a careful check of the additions effects no improvement.

It may happen that the difference between the two columns may be an amount readily identifiable as one of those omissions just described. It is also possible to miss the balance of an account completely when abstracting from the ledger, and the inclusion of the balances from the cash book may have momentarily been lost sight of.

When the difference is not accounted for by the discovery of an amount left out, then errors are likely to have been made during the operation of posting to the ledger accounts. Two debit entries or two credit entries may have been made in the ledger instead of one debit and one credit. Assume that £10 cash received from T. Smith is posted from the debit side of the cash book to the debit side of T. Smith's ledger account. This will cause the debit column total of the trial balance to be £20 greater than the total of the credit column, as an extra £10 has been debited in error, while the credit side has not received £10. One method of locating this type of error is to halve the difference of the trial balance totals, and check postings of amounts similar to that obtained.

Transposition of figures is another fairly common cause of trouble. For example, an item in the cash book or one of the subsidiary books may have been posted to the ledger as £738 or £873 instead of £378, and it may be found that an error of this description has been made if the difference between the trial balance columns is divisible by 9. When £378 was

posted as £738, the hundreds in the correct figure were shown as tens, and resulted in a shortage of $3 \times 90 = 270$. The tens in the correct figure were shown as hundreds, and caused a surplus of $7 \times 90 = 630$. Deduct 270 from 630, and the remainder is 360, which is divisible by 9. If £378 had been posted as £873, the transposition of the units figure would have caused a surplus of $800 - 8 = 792$, and the transposition of the hundreds figure a shortage of $300 - 3 = 297$. The difference between 792 and 297 will be found to be divisible by 9. Actually, there is no need to make the deductions, as both surplus and shortage are divisible by 9.

If the difference involves shillings and pence, division of this portion of it by 11 may reveal that in some item the contents of the shillings and pence columns have been reversed. For example, if 8s. 11d. had been posted as 11s. 8d. a surplus of 10s. 1d. would have arisen through 11d. being shown as 11s. (11s. — 11d. = 10s. 1d.). A shortage of 7s. 4d. would be caused by 8s. being shown as 8d. (8s. — 8d. = 7s. 4d.). Both the surplus and the shortage are divisible by 11. Involved transpositions can be troublesome.

Other difficulties occur in the form of balances brought down wrongly, mistakes made in transferring totals from one folio to another or due to poor figures, correct amounts placed in wrong columns of the trial balance, total columns in an account not agreeing, cash book discount columns posted to the wrong side of the ledger, non-inclusion of discount when posting from the cash book to a personal account, and duplication of balances abstracted to the trial balance.

There are, however, errors that may not show up in a trial balance, and these perhaps are the most difficult to contend with. They consist mainly in postings to the correct side of the ledger but to the wrong account. Examples would be the posting of an expense item to the debit of an asset account, or a posting to the wrong expense account. Similarly, the wrong personal account may be debited or credited, which, in the case of debtors, may result in the issue of two incorrect monthly statements and at least one complaint.

Another example is the "compensating error," where a mistake on the debit side of the ledger is equalled by another unconnected mistake of identical amount on the credit side, or where two errors occur on the same side, the shortage of

one item being compensated by an excess of the same amount in another.

Suspense Account

If it is impossible to correct an error without a long search, it may be expedient to shelve the matter temporarily by opening a "Suspense" or "Errors in Books" account to effect balancing.

Assume that the debit side of a trial balance was £50 heavier than the credit side, and that later the error was found to be due to overcasting the returns inward book.

The first step would be to open a Suspense account and credit it with the sum of £50. Then, when the reason for the error was discovered, a journal entry in the following form would be necessary—

JOURNAL 10

1952			£	£
Feb. 24	Suspense Account . . . . *Dr.*	44	50	
	To Returns Inward . . .	45		50
	Being correction of error in amount posted.			

The posting of this journal entry would leave the ledger accounts as follows—

44 *Dr.* SUSPENSE ACCOUNT *Cr.* 44

1952			£	1951			£
Feb. 24	To Returns Inward .	J.10	50	Dec. 31	By Error in Books		50

45 *Dr.* RETURNS INWARD *Cr.* 45

				1952			£
				Feb. 24	By Suspense Account .	J.10	50

When the trial balance reveals the credit side to be the heavier by £50, a suspense account will be opened and debited with £50. Assuming the error were afterwards found to be due to overcasting the credit side discount column of the cash book, the resulting adjusted ledger accounts would be

(after posting from a journal entry in similar form but with account titles inverted)—

44 *Dr.* SUSPENSE ACCOUNT *Cr.* 44

1951			£	1952			£
Dec. 31	To Error in Books	J.10	50	Feb. 24	By Discount Received	J.10	50

47 *Dr.* DISCOUNT RECEIVED *Cr.* 47

1952			£				
Feb. 24	To Suspense Account	J.10	50				

If the books were ruled off at the end of December for the compilation of annual accounts the suspense account would be carried forward to the new financial year when it would be eliminated.

To provide another example, assume that goods value £20 were sold on credit to John Smith and his account were credited with the amount instead of being debited. This would make the credit side of the trial balance greater than the debit by £40. On discovery of the error John Smith's account would have to be debited with £40 to cancel the credit and show a debit balance of £20. Following are the necessary entries—

JOURNAL 6

1952			£	£
Feb. 24	John Smith . . . . . *Dr.*		40	
	To Suspense Account . . .			40
	Being correction of entry posted in error. .			

LEDGER

48 *Dr.* SUSPENSE ACCOUNT *Cr.* 48

1951			£	1952			£
Dec. 31	To Error in Books		40	Feb. 24	By John Smith .	J.6	40

14 *Dr.* JOHN SMITH 14

1952			£	1951			£
Feb. 24	To Suspense Account .	J.6	40	Dec. 10	By Goods . .	S	20

In this manner the suspense account is closed and John Smith finishes with a debit balance of £20.

Finally, a suspense account, although its presence is regrettable, serves as a reminder that the books still need correction.

EXERCISE VII

1. Define the term "Trial Balance" and describe its function.

2. Does the agreement of the trial balance guarantee that the books are free from error?

3. When preparing a trial balance from a set of books, you find that the sides do not agree, the *Dr.* total being £25,305 1s. 11d. and the *Cr.* total £25,080 12s. 9d. You are convinced that nothing has been omitted and that all figures are arithmetically correct, all postings, additions, etc., having been independently checked. What is the probable nature of the error made and what will be the correct totals of the trial balance? (*R.S.A.*)

4. If discount received were shown on the debit side of the trial balance, would it affect the accuracy of the trial balance? Answer as fully as possible.

5. What is a trial balance? What *kind* of errors will a trial balance (*a*) disclose, (*b*) fail to disclose? (*R.S.A.*)

6. Prepare a trial balance from the following list of balances (extracted on 31st March, 1951), and insert as Capital the sum which you find is required to balance the two sides—

	£
Cash in Hand	22
Sundry Creditors	1,450
Loan to employee	50
Freehold Building	1,500
Bank Overdraft	544
Stock on Hand	1,786
Sundry Debtors	2,484
Salaries	58
Discount Received	36

7. On extracting a trial balance, a book-keeper found that the total of the debit balances exceeded that of the credits by £18. State concisely what errors may have caused this difference. (*R.S.A.*)

8. Explain why the proof of double entry in the ledger is effected by adding the balances of the accounts and not the totals of all the entries.

9. On taking out a trial balance from a set of books, a book-keeper found that the *Dr.* side exceeded the *Cr.* by £9.

Assuming that this "difference" was due to a single mistake, mention as many types of error as you can think of, each different in principle, any one of which could have caused it.

10. The books of Mrs. Riley, a fishmonger, disclosed on the 31st December, 1951, the following assets and liabilities: Cash in Hand, £10 4s. 6d.; Cash at Bank, £100 10s.; Stock, £115; Fixtures and Fittings, £100; Premises, £600; Debtors: Mrs. Jones, £1 10s.; Mrs. Smith, £1. Creditors: Peter Warner, £20; L. Needham, £15.

You are required to open Mrs. Riley's books, enter the following transactions through the proper subsidiary books and then post to the ledger.

1951

Jan. 2. Cash sales, £20.
Sold on credit to Mrs. Farmer, fish £1 10s.
Cash sales, £15.

4. Sold on credit to Mrs. Jones, fish 10s.
Cash sales, £17.

5. Bought new marble slab for £5 and paid by cheque.
Sold on credit to Mrs. Smith, fish £1.
Mrs. Jones paid cheque £1 10s. on account.
Cash sales, £18.

6. Paid to Needham, £10 cash on account.
Bought fish on credit from L. Needham, £10.
Bought on credit from Peter Warner, fish £5.
He allowed 20 per cent trade discount.
Cash sales, £20.
Sold on credit to Mrs. Jones, fish £5.
Allowed her 20 per cent trade discount.

7. Returned fish not up to standard to L. Needham, £4.
Cash sales, £16.
Mrs. Jones returned fish £1 10s.
Bought second-hand delivery bicycle on credit from J. Boden, £4.

11. John Stuart is in business as a sports outfitter. On 1st December, 1951, his financial position was as follows: Cash in Hand, £100; Cash at Bank, £500; L. Mason owed £40; R. Massey owed £20; Stock, £1,000; Fixtures and Fittings, £600; Premises, £1,500; Owing to J. Johnson, £100; Owing to W. Green, £200.

Record the above position and the following transactions through the proper subsidiary books, post them to the ledger and extract a trial balance as on 6th December, 1951.

1951

Dec. 1. Paid J. Johnson by cheque amount due to him *less* 2½ per cent cash discount.

2. L. Mason paid by cheque amount due from him *less* 2½ per cent cash discount.

3. Bought on credit from George Pope, Ltd., one dozen cricket bats at £2 each, *less* 10 per cent trade discount.

Dec. 4. Sold on credit to Chesterfield Junior Commercial School six cricket bats at £2 each.
5. Chesterfield Junior Commercial School returned one cricket bat with faulty handle binding.
6. Bought new display cabinet £40 from Messrs. Eyre & Sons, on credit.

12. Record the following transactions in the books of Rowland Salt, retail confectioner. Post to the ledger, and extract a trial balance on the 6th November, 1951. Opening balances 1st November, 1951: Premises, £4,000; Fixtures, £600; Delivery Vans, £600; Owing by F. Smith, £300; by R. Jones, £200; Owing to L. Hartley, £100; to J. A. Hobson, £200; Cash at Bank, £600; Cash in Hand, £100.

1951
Nov. 1. Bought on credit from Woodhead, cakes valued £100 *less* trade discount 10 per cent.
2. Bought new delivery van valued £600 on credit from Kenning.
3. Sold old delivery van valued £100 on credit to T. Williamson.
4. Bought on credit flour and sugar valued £150 from H. Taylor, less 5 per cent trade discount.
5. Returned to Woodhead cakes of net value £20, owing to their musty condition.
6. Sold on credit to F. Smith, cakes valued £50 *less* 5 per cent trade discount.
F. Smith paid by cheque amount due from him *less* 2½ per cent cash discount.
R. Jones paid by cheque amount due from him *less* 2½ per cent cash discount.
Paid Kenning by cheque for delivery van bought on 2nd November, 1951.
F. Smith returned cakes of net value £10, wrong centres.
Paid in cash, wages £10, rent £4, insurance £2, cleaning £2, and postage £1.
Paid by cheque L. Hartley amount due to him *less* 2½ per cent cash discount.
Paid to J. A. Hobson by cheque £100 on account.

13. On 1st July, 1951, the books of F. Smith, confectioner, revealed the following position—

Cash in Hand, £10; Cash at Bank, £200; Debtors: J. Brown, £5; R. Jones, £10; Stock in Shop, £100; Fixtures and Fittings, £100; Freehold Shop, £1,000; Creditors: Roocrofts, £50; Meesons, £50.

Record the above and enter the following transactions in the appropriate books of original entry, post to the ledger and extract a trial balance on the 6th July, 1951.

1951
July 1. Drew cash from bank £20.
Cash sales, £40.

July 2. Bought a new pair of scales from Swallows on credit £25.
3. Bought on credit from Meesons assorted sweets £100 and was allowed 20 per cent trade discount.
Bought on credit from Roocrofts, assorted chocolates £150, and was allowed 25 per cent trade discount.
J. Brown paid his account by cheque *less* 2½ per cent cash discount.
4. Paid Roocrofts by cheque the amount due to them *less* 2½ per cent cash discount.
Cash sales, £40.
Returned scales to Swallows—faulty balance.
Sold on credit to J. Brown chocolates £10. Allowed him 10 per cent trade discount.
5. Returned chocolates £25 to Roocrofts, very bad colour.
Paid for advertisement £4 in cash. Paid salaries £10 in cash.
Paid travellers' commission £2 by cash.
Cash sales, £50.
6. R. Jones paid his account by cheque *less* 2½ per cent cash discount.
Paid Meesons by cheque the amount due to them *less* 2½ per cent cash discount.
Bought scales from Swallows £10; paid cash.
Paid £20 cash to bank.
Returned sweets to Meesons £20, crushed in transit.
Sold to R. Jones on credit assorted chocolates £20 *less* 10 per cent trade discount.

Calculate the value of F. Smith's stock assuming he makes a gross profit of 25 per cent on all sales.

14. On 1st January, 1951, the books of Mrs. Thompson, general dealer, revealed the following position—

Cash in Hand, £20; Cash at Bank, £1,000; Stock, £100; Fixtures and Fittings, £50; Premises, £1,000; Owing to L. Smith, £20; Owing to Voce, £30.

Record the above position and enter the following transactions in the appropriate subsidiary books, post to the ledger, extract a trial balance as on the 7th January, 1951.

1951

Jan. 1. Drew cash from bank £40.
2. Mrs. Thompson took cash £20 from shop till for private purposes.
Bought from Voce, goods on credit value £50 and was allowed 25 per cent trade discount.
3. Bought new pair of scales from Swallows on credit £40.
Bought from L. Smith, on credit, goods £40.
Cash sales to date £100.
4. Bought from Voce, goods, £100, receiving 25 per cent trade discount.
Returned goods to Voce worth £40 at retail price; in damaged condition.

Jan. 5. Customer returns goods value £1; cash refunded.
Further cash sales £40.
6. Bought on credit from L. Smith groceries £50 and was allowed 25 per cent trade discount.
Sold old set of weights for cash £10.
Bought two new knives from Swallows and paid cash for them, £4.
Sold on credit to Boden, Falcon Restaurant, provisions £50 (at retail price), allowing him 20 per cent trade discount.
Returned groceries to L. Smith, value £20 at retail price.
Boden returned provisions worth £4 at retail price—he had not ordered them.
Cash sales £20.
7. Paid salaries £20 by cheque.
Paid rent £4 in cash.
Paid by cheque amount owing to L. Smith on 1st January, 1951, and received 2½ per cent cash discount.
Drew cash from bank £100.
Paid by cheque amount owing to Voce on 1st January, 1951, and received 2½ per cent cash discount.
Boden paid amount due from him, in cash; allowed him 2½ per cent cash discount.

15. George Black is in business as a sports outfitter. On 1st January, 1951, his financial position was as follows: Cash in Hand, £20; Cash at Bank, £400; T. Jones owed £10; R. Johnson owed £20; Stock in Shop, £1,300; Fixtures and Fittings, £400; Premises, £1,000. Owing to L. Mason, £100; and to F. Riley, £200.

Record the above position and the following transactions in the proper subsidiary books, post them to the ledger and extract a trial balance as on 14th January, 1951.

1951
Jan. 1. Paid L. Mason by cheque amount due to him *less* 2½ per cent cash discount.
Cash sales £300.
Paid £200 cash to bank.
2. Bought new counter valued £50 from Eyre and Sons on credit.
Cash sales £100.
Sold old display cabinet valued £20 on credit to R. Thompson.
T. Jones paid by cheque amount due from him *less* 5 per cent cash discount.
3. Bought on credit from L. Mason 10 dozen football jerseys at £2 per dozen and 2 dozen footballs at £1 each, the whole invoice being subject to 20 per cent trade discount.
4. Sold on credit to Chesterfield College of Technology Engineering Department one dozen footballs at £1 each *less* 10 per cent trade discount.
Cash sales £100.
George Black drew out by cheque £20 for private purposes.
Paid £50 cash to bank.

Jan. 4. Bought on credit from F. Riley 4 dozen hockey sticks at £2 each and 6 dozen hockey balls at 5s. each, the whole invoice being subject to 25 per cent trade discount.

6. Cash sales £200.
   Sold on credit to Chesterfield College of Technology Day Secretarial, 2 dozen hockey sticks at £2 each *less* 10 per cent trade discount.
   Bought and paid for by cheque new display cabinet, valued at £100 from Eyre and Sons.

7. Cash sales £100.
   Drew £40 cash from bank.

9. Paid £4 for advertising, by cheque.
   R. Johnson paid by cheque amount owing by him *less* 2½ per cent cash discount.

10. Cash sales £40.
    Chesterfield College of Technology returned six footballs which were of inferior quality.

11. Returned to L. Mason six footballs which were of inferior quality.

12. Paid salaries £20 in cash.

13. Chesterfield Day Secretarial returned six hockey sticks which were badly bound.

14. Paid rent £20 by cheque.
    George Black took two hockey sticks at cost price out of stock or his two daughters.

CHAPTER VIII

CALCULATION AND COMPARISON OF RESULTS (I)

In the second chapter it was shown that J. Robbins made a profit of £50 by selling for £200 his stock of pipes, tobacco and cigarettes which had cost him £150. This profit was added to his capital on the liabilities side of the balance sheet of the business, as the profit of a business (disregarding taxation) belongs to its owner. It represents his reward for the service he has rendered to the community through his business, and as it was not withdrawn for private purposes it represents an additional investment in the business. In other words, it increases the amount owing by the business to its owner, whose capital this amount represents.

In practice, however, things are not quite so simple. As it rarely happens that the exact quantity of goods bought coincides with the quantity sold, it is necessary, when calculating the profit earned during a trading period, to include in the calculation the value of stock held at both the beginning and the end of the period. Furthermore, the expenses incurred in running a business must be charged against the earnings in order to arrive at the true or net profit.

Before an example is given, it must be explained that "gross profit" is the apparent profit represented by the excess of selling over cost price, and that "net profit" is the same figure reduced by the business expenses incurred.

The Effect of Stock on Gross Profit. The following example will illustrate this point. The figures are taken from the books of a radio dealer—

1951		£
Sept. 1.	Stock of 20 radio sets at £10 each . . .	200
	Purchases for month—20 radio sets at £10 each .	200
	Sales for month—30 radio sets at £15 each .	450
30.	Stock of 10 radio sets at £10 each . . .	100

From these figures it is apparent that the profit on the sale of each radio set is £5; consequently the gross profit from the

30 sets sold is £150, or sale price of goods sold less their cost price.

This illustration may be summed up in the following formula—

Gross Profit =

(Sales + Final Stock) − (Purchases + Initial Stock)

= (£450 + £100) − (£200 + £200) = £150

Note that stock is not valued at selling price; to do so would anticipate profit not yet earned. Hence it has become a book-keeping axiom to value stock at cost or market price, whichever is the lower at the date of stocktaking. The market price is that which the trader would have to pay to replenish his stocks.

Now, assuming that the radio dealer's shop expenses for the month were £50, his net profit would be expressed as—

Net Profit = Gross Profit − Expenses

= £150 − £50 = £100

The account which is drawn up for the ascertainment of gross profit is called the Trading Account, and the foregoing figures will be used to provide an example in its simplest form—

Dr. TRADING ACCOUNT FOR SEPTEMBER, 1951 *Cr.*

		£			£
Sept. 1	To Stock	200	Sept. 30	By Sales	450
30	Purchases	200	30	Stock	100
30	Gross Profit	150			
		550			550

Calculation of Final Stock. The quantity of goods in stock at the end of a trading period is the excess of the opening stock plus purchases over sales. This is assuming, of course, that no losses or surpluses have arisen. The radio dealer's final stock figures would be arrived at in this manner—

		Sets
Sept. 1.	Opening stock	20
	Purchases during month	20
		40
	Less Sales during month	30
30.	Closing stock	10

Value of closing stock at cost price = 10 × £10 = £100.

In order to arrive at the figure for closing stock when values only are given, it is essential to deduct the gross profit from the sales figure. In the figures already given, if the sales figure as it stands were used, the dealer would appear to have a closing stock of minus £50 (£200 + £200 = £450). If, however, before making the calculation, gross profit (£150) were deducted from sales, the correct figure of £100 would be obtained. Reduced to a formula this would be—

Closing Stock = (Opening Stock + Purchases) — Sales at cost price.

It must not be overlooked that purchases must be reduced by the amount of purchases returns, and sales by the amount of sales returns.

Of course, a stock valuation compiled from financial figures should not be regarded as a satisfactory substitute for a physical stocktaking. The varying percentages of profit on different classes of goods make this figure unreliable, and it is generally used only in the period between stock counts.

The preparation of a stock inventory of any magnitude usually involves amendments of some description. Leaving out discrepancies caused by dishonesty, shortages and surpluses often occur, and create differences between stock records and actual stock. Again, where materials are bought in bulk, issues often result in losses. Evaporation is another factor with which it is difficult to contend.

Turning from quantities to values, other possible amendments have to be considered. Stock that has been damaged or spoilt, is obsolete or obsolescent, needs to be reduced in value or included at a purely nominal figure.

Acknowledgment of these deviations from recorded quantities and values is necessary for the accurate calculation of profit.

The effect of damaged stock is illustrated in the answer given to the following question from a Royal Society of Arts examination paper—

L. Proudie, a trader, had in stock on 1st March, 1952, 4,000 articles valued at 2s. 6d. each. During March he purchased a further 8,000 costing 3s. each, but was given an allowance of 2s. each on 500 of these, as they arrived in a damaged condition. His sales during the month were 7,000

articles at 5s. each, and 340 of the articles at 2s. each. Undamaged articles in stock at 31st March, 1952, were valued at 3s. each, and the damaged articles at 9d. each.

Show L. Proudie's trading account for the month of March, 1952.

Dr. TRADING ACCOUNT OF L. PROUDIE FOR MARCH, 1952 *Cr.*

		£	£		£	£
Mar. 1	To Stock, 4,000 articles at 2s. 6d. each . .		500	Mar. 31	By Sales, 7,000 articles at 5s. each	1,750
		£			340 damaged articles at 2s. each . .	34
31	Purchases . 8,000 at 3s. .	1,200				1,784
	Less Returns 500 at 2s. .	50			Stock, 4,500 undamaged articles at 3s. each . .	675
			1,150		Damaged, 160 at 9d. . .	6
	Gross Profit . .		815			681
			2,465			2,465

The closing stocks are arrived at as follows—

	Undamaged	*Damaged*
Opening stock	4,000	
Add purchases	7,500	500
	11,500	500
Less sales	7,000	340
	4,500	160

The steps so far discussed have led to the ascertainment of gross profit. The next step is the calculation of net profit by preparing a Profit and Loss Account. In business, this account is usually shown as an appendage to the trading account, the whole appearing under a combined title, but for present purposes it will be treated as a separate account.

The gross profit, therefore, which is the excess of trading account credits over its debits, is carried to the credit side of the profit and loss account. Nominal account credit balances are shown on the credit side and the debit balances on the debit side. Therefore, to the left are shown expenses and losses, to the right gross profit and gains. The difference between the two sides is shown as a balance on the lighter side,

an excess of credits over debits disclosing a profit, and the reverse a loss.

The trial balance of the worked example will be reproduced, and from this will be compiled the trading account, profit and loss account and balance sheet covering the transactions from 1st to 6th December, 1952.

The first step is to calculate the value of J. Robbins's stock in hand at 6th December and for this purpose it is assumed that he makes an overall gross profit of 20 per cent on his sales. The calculation of his stock at 6th December would be done in the following manner—

	£	s.	d.
Sales	638	–	–
Less Returns inward	35	–	–
Net sales	603	–	–
Less Gross profit (20%)	120	12	–
Net sales at cost price	482	8	–
Stock at beginning	–	–	–
Purchases	875	–	–
Less Returns outward	69	10	–
Net purchases	805	10	–
Less Sales at cost price as shown above	482	8	–
Stock at 6th December	323	2	–

TRIAL BALANCE OF J. ROBBINS, TOBACCONIST
AT 6th DECEMBER, 1952

	Dr. £	s.	d.	*Cr.* £	s.	d.
Capital				820	–	–
Delivery Van	100	–	–			
Fixtures and Fittings	100	–	–			
A. Britt & Sons, Ltd.				100	–	–
Havana Tobacco Co., Ltd.				320	–	–
Cigarettes, Ltd.				87	10	–
A. Green	90	–	–			
G. Mason	153	–	–			
Rent	10	–	–			
Wages	40	–	–			
Advertising	2	–	–			
Discount Received				7	9	–
Carried forward	495	–	–	1,334	19	–

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Brought forward	495	–	–	1,334	19	–
Purchases	875	–	–			
Sales				638	–	–
Returns Inwards	35	–	–			
Returns Outward				69	10	–
Cash in Hand	68	–	–			
Cash at Bank	569	9	–			
	2,042	9	–	2,042	9	–

The trading account does not differ from the examples previously given, except that the effect of returns is shown as deductions from purchases and sales.

With regard to the profit and loss account, it will be noted that gross profit is treated as if it were a balance brought down from trading account, and that expenses are shown as debits and gains as credits, as already described.

These two accounts dispose of all the items in the trial balance except assets and liabilities, which are displayed in the balance sheet.

Before discussing that document, a comment is necessary upon the form that is usually adopted in this country. Although in the accounts assets appear on the debit side, and liabilities on the credit side, in the balance sheet liabilities appear on the *left* and assets on the *right*, and the terms debit and credit *are not used.*

This has to be regarded as a convention, and not as a last-moment reversal of principle.

Turning to the assets, in private businesses these are usually set out in order of permanency. Note the inclusion of closing stock—its incorporation in the trading account was to serve the purpose of ascertaining the gross profit and not to represent an asset.

With regard to the liabilities, these are shown in the order in which they have to be met. Capital has been augmented by the amount of the net profit, and the manner in which this is shown should also be noted.

Both trading and profit and loss accounts state in their headings the period covered and its date of termination, but the balance sheet is always described as *at* that date, as

Dr. **Trading Account for Week ending 6th December, 1952** *Cr.*

		£ s. d.	£ s. d.			£ s. d.	£ s. d.
Dec. 1	To Stock		– – –	Dec. 6	By Sales	638 – –	
6	Purchases	875 – –			*Less* Returns	35 – –	603 – –
	Less Returns	69 10 –					
			805 10 –		Stock		323 2 –
	Gross Profit		120 12 –				
			926 2 –				926 2 –

Dr. **Profit and Loss Account for Week ending 6th December, 1952** *Cr.*

	£ s. d.		£ s. d.
To Rent	10 – –	By Gross Profit	120 12 –
Salaries	40 – –	Discount Received	7 9 –
Advertising	2 – –		
Net Profit	76 1 –		
	128 1 –		128 1 –

Dr. **Balance Sheet of J. Robbins as at 6th December, 1952** *Cr.*

	£ s. d.		£ s. d.
Liabilities		*Assets*	
Creditors	507 10 –	Delivery Van	100 – –
	£ s. d.	Fixtures and Fittings	100 – –
Capital	820 – –	Stock	323 2 –
Add Net Profit	76 1 –	Debtors	243 – –
	896 1 –	Cash at Bank	569 9 –
		Cash in Hand	68 – –
	1,403 11 –		1,403 11 –

obviously the state of affairs shown was not the same throughout the trading period.

The arrangement and description of the assets and liabilities, in the balance sheets of limited liability companies, must be in the form required by law.

These examples will have demonstrated the working of the double-entry system as applied to a few transactions extending over a short period.

As a general rule, such accounts as those just shown are compiled at not less than monthly intervals and are to help a proprietor to keep a finger on the pulse of his business pending the final ruling-off of his books at the end of his financial year. The figures are taken from the books without resort to what are called "closing entries." But at the end of the financial year trading and profit and loss accounts are opened in the ledger, and to them are transferred by journal entry the balances of the accounts from which they are compiled. The journal entries in respect of the trading account are set out as follows. The figures used are imaginary ones, and the financial year is taken as ending on 31st December, 1952.

JOURNAL

1952				£	£
Dec. 31	Trading Account		*Dr.*	12,000	
	To Stock (at 1st January, 1952)				1,500
	Purchases				10,000
	Returns Inward				500
	Being balances transferred.				
31	Sales		*Dr.*	18,000	
	Returns Outward			600	
	To Trading Account				18,600
	Being balances transferred.				
31	Stock (at 31st December, 1952)		*Dr.*	1,200	
	To Trading Account				1,200
	Being value of stock at this date.				

The effect on the ledger accounts will be—

Dr. STOCK *Cr.*

1952			£	1952			£
Jan. 1	To Balance		1,500	Dec. 31	By Trading Account	J.	1,500
Dec. 31	To Balance	J.	1,200				

Dr.			PURCHASES				*Cr.*
1952 Dec. 31	To Sundries . .		£ 10,000	1952 Dec. 31	By Trading Account	J.	£ 10,000

Dr.			SALES				*Cr.*
1952 Dec. 31	To Trading Account	J.	£ 18,000	1952 Dec. 31	By Sundries . .		£ 18,000

Dr.			RETURNS INWARD				*Cr.*
1952 Dec. 31	To Sundries . .		£ 500	1952 Dec. 31	By Trading Account	J.	£ 500

Dr.			RETURNS OUTWARD				*Cr.*
1952 Dec. 31	To Trading Account	J.	£ 600	1952 Dec. 31	By Sundries . .		£ 600

The purchases, sales, and returns accounts are shown to be cleared of their contents, leaving the folio clear for the entries for 1953, but the stock account calls for comment. The opening stock at 1st January, 1952, is transferred in a similar way to that employed with the other accounts, and the two sides of the account are ruled off. This then leaves the new or closing stock figure to be dealt with.

Towards the end of the financial year arrangements for stocktaking will have been made and a figure arrived at with proper care, adjustments being made in respect of goods received or sold during the stocktaking operation, and for goods which have suffered from the various forms of deterioration or shrinkage.

This stock figure is then journalized (see the third journal entry). The stock account is debited, and the figure constitutes the opening stock value for 1953. The credit entry appears in the trading account.

Stock sometimes functions as an asset and sometimes as an expense. While the goods remain unsold, they quite clearly constitute an asset, but as soon as portions *are* sold the asset is diminished, each diminution representing expenditure incurred in running the business. The total of these reductions

in the value of the asset is ascertained in the trading account, in which the closing stock is shown against the opening stock and the purchases. This function performed, the closing stock is then available for treatment as an asset at the date of the balance sheet. After that date the sales in the new period cause it to resume the characteristics of a nominal account.

From this it will be seen that stock and purchases could be recorded together in the same ledger account, but it is preferable to keep the accounts separate.

Turning to the profit and loss account, specimen journal entries dealing with the balances to appear in it are now given—

JOURNAL

1952			£ s. d.	£ s. d.
Dec. 31	Profit and Loss Account *Dr.*			
	To Salaries . . .			
	National Insurance .			
	Rent			
	Advertising . . .			
	Discount Allowed . .			
	Being balances transferred.			
	Discount Received *Dr.*			
	Interest on Deposit Account .			
	To Profit and Loss Account			
	Being balances transferred.			

These examples contain only representative items, but it will be seen that the procedure is similar to that adopted for inclusion of balances in the trading account. The ruling-off of the ledger accounts is also done similarly.

The trading account, profit and loss account and balance sheet are referred to as "the final accounts."

Drawings. In the balance sheet of J. Robbins shown on page 82 the net profit appears as an addition to his capital. It is usual, of course, for the proprietor to withdraw sums from his business to meet his personal expenses; these sums are called "Drawings."

Such a withdrawal will be recorded by an entry on the credit side of the cash book "By Drawings." The amount will be posted from the cash book to the debit of a "Drawings

Account" with the wording "To Cash." At the end of the relevant period the amount will be shown as a deduction from capital, which will result in a decrease in the amount of the liabilities total in the balance sheet. The assets total will of course be similarly reduced, the cause being a reduction in cash following the withdrawal.

Drawings may take a form other than cash, in which case the journal would be used. Assume that J. Robbins took from stock cigarettes to the value of £8, and charged himself the full retail price. The transaction would appear in journal and ledger accounts like this—

1 JOURNAL 1

1952			£	£
Dec. 2	Drawings . . . . . *Dr.*	2	8	
	To Sales	20		8
	Being cigarettes purchased by J. Robbins.			

LEDGER

2 *Dr.* DRAWINGS *Cr.* 2

1952			£				
Dec. 2	To Sales . . .	J.1	8				

20 *Dr.* SALES *Cr.* 20

				1952			£
				Dec. 2	By Drawings . .	J.1	8

As another example, assume that J. Smith, a furniture retailer, took from his office on 6th March, 1951, a typewriter valued by the business at £30, for the use of his daughter at home. Till then the value of the firm's office equipment was £100. The record in the firm's books would appear thus—

JOURNAL

1951			£	£
Mar. 6	Drawings . . . . . *Dr.*	2	30	
	To Office Equipment . . .	3		30
	Being typewriter bought by J. Smith.			

LEDGER

2 *Dr.* DRAWINGS *Cr.* 2

1951			£				
Mar. 6	To Office Equipment	J.1	30				

3 *Dr.* OFFICE EQUIPMENT *Cr.* 3

1951			£	1951			£
Mar. 1	To Balance . .		100	Mar. 6	By Drawings . .	J.1	30

Drawings in Excess of Capital. As the result of economic depression, personal misfortune or extravagance, a proprietor may withdraw from the business more than the amount represented by his capital. The amount overdrawn would be a debt due to the firm by the proprietor, and in such circumstances the capital account would appear among the assets in the balance sheet.

The Distinction between Revenue and Capital

Revenue expenditure is that which is incurred in maintaining the earning capacity of a business or asset, whereas capital expenditure is that which increases the earning capacity of the business or asset.

The cost of repairs to machinery would be revenue expenditure, while the purchase of a *new* machine would be capital expenditure.

Again, the purchase by a business of goods for resale and the subsequent sale of those goods would respectively represent revenue expenditure and receipts. On the other hand, the purchase or sale of things in which the business does not deal would be capital transactions, e.g. the purchase of new shop fittings by a greengrocer and the sale of those being replaced.

From these examples it will be understood that the classification of transactions into capital or revenue items is exceedingly difficult unless the type of business and the purpose underlying the transactions are known, as a capital transaction in one business may exactly resemble a revenue transaction in another.

To illustrate this, the purchase for resale of a typewriter by a wholesaler dealing in typewriters would constitute revenue

expenditure; if, however, it were afterwards decided not to sell that particular typewriter but to retain it for use in the wholesaler's office, the machine would become part of the office equipment and its cost would be capital expenditure. The purchase of a similar machine by a textile manufacturer would of course be easily identifiable as capital expenditure on the reasonable assumption that it was bought for use in the office.

There are, of course, cases where an arbitrary division must be made, such as apportioning the cost of launching an extensive advertising campaign, the results of which would be expected to affect the future as well as the present. A portion of such outlay would obviously have to be treated as current revenue expenditure, but the amount carried forward would appear as an asset in the balance sheet until it had been completely written off in a succession of profit and loss accounts.

A similar difficulty may arise with the alteration, improvement or extension of existing plant, as the value of the plant would not necessarily increase in direct proportion to the amount spent upon it. The amount not represented by increased asset value would of course be treated as revenue expenditure.

Problems of this description arise in business, where matters of correct expense allocation are responsibilities of the accountant. The student, however, is usually given some indication of the necessary treatment.

Revenue items, then, are recorded in the profit and loss account or trading account, and capital items in the balance sheet.

Quite apart from the desirability of ascertaining true profits, the need to distinguish carefully between capital and revenue expenditure arises in connection with taxation assessments. In view of the present high rates of taxation, the understatement of revenue expenditure is to be avoided; this does not, however, mean that revenue expenditure has to contain items of a capital nature, and Inspectors of Taxes, when raising assessments, ensure that proper allocation has been effected.

EXERCISE VIII

1. State concisely the meaning of the terms (*a*) Gross Profit, (*b*) Net Profit. (*R.S.A.*)

2. Explain why it is necessary to include the opening and final stocks in the calculation of gross profit.

3. From the following figures calculate the value of the final stock for week ending 6th January, 1951, of Thomas Jones, radio retailer.

1951		£
Jan. 1.	20 sets in stock at £40 each	800
6.	40 sets purchased during the week at £40	1,600
	55 sets sold during the week at £60	3,300

Prove your answer. What is the percentage gross profit on turnover?

4. How should drawings be treated in the final accounts of a business? Justify your answer.

5. Is there any difference in the wording of the heading of a balance sheet compared with that of a trading account or profit and loss account? If so, state what it is, and explain the reason for it.

6. How should the net profit for a period be treated in the final accounts? Give reasons for your answer.

7. If capital were shown on the assets side of a balance sheet which contained no mistake, how would you explain it?

8. The following trial balance was extracted from the books of F. Stewart on 31st December, 1951—

	Dr.	*Cr.*
	£	£
Sundry Debtors and Creditors	1,920	4,950
Stock	2,560	
Profit for the year 1951		1,070
Capital as on 1st January, 1951		3,500
Plant and Machinery	2,500	
Cash at Bank	732	
Fixtures and Fittings	750	
Drawings during year	1,058	
	9,520	9,520

You are required (*a*) to prepare his balance sheet as at 31st December, 1951, and (*b*) to prepare a balance sheet on 1st January, 1952, supposing that on that day he received £3,250 cash for the sale of all his fixed assets and paid £2,645 to Creditors. It is to be assumed that he had no other transactions on that day. (*R.S.A.*)

9. What is a Balance Sheet? In what ways does it differ from a Trial Balance? (*R.S.A.*)

10. A firm commenced business on 1st June, 1951, with a stock of 1,000 articles, costing 6s. each. During the month it purchased

3,000 similar articles at 5s. each, and sold 2,200 at 8s. each. During the month 100 of the articles were returned to the firm in good saleable condition by purchasers. At 30th June, 1951, 50 of the articles in stock had become damaged and were worthless. The saleable stock in hand was valued at 5s. each.

Show, in the form of a trading account, the gross profit or loss made on these articles during the month. (*R.S.A.*)

11. Write out the following list of assets in the order in which they should be shown in a balance sheet—

Cash at Bank	Stock
Sundry Debtors	Plant and Machinery
Freehold Buildings	Cash in Hand (*R.S.A.*)

12. The abridged balance sheet below is that of a sole trader. You are required to re-draft it as it would appear after the transactions given had been carried out.

BALANCE SHEET OF G. MILLAR AS AT 31ST DECEMBER, 1952

	£		£
Creditors	1,200	Cash	15
Capital Account	3,000	Debtors	385
		Stock	1,800
		Machinery	2,000
	4,200		4,200

(*a*) G. Millar was loaned £500, and he paid off £200 of his debts, no discount being allowed him. The loan was banked.

(*b*) He received £50 from his debtors, but allowed no discount.

(*c*) He purchased on credit £100 of stock.

(*d*) G. Millar sold for cash some of his machinery. Its book value was £200 but it fetched £150.

13. From the following list of balances extracted from the books of F. Taylor, a retail chemist, compile a trial balance, a trading account and profit and loss account for the year ending 31st December, 1951, and a balance sheet as on that date—

	£
Capital	2,320
Drawings	100
Premises	2,000
Fixtures	500
Creditors	600
Debtors	100
Discount Received	20
Rent	50
Rates	20
Salaries	200

	£
Advertising	10
Carriage Outward	20
Carriage Inward	40
Postage	10
Stock, 1st January, 1951	400
Purchases	1,000
Returns Outward	50
Sales	2,000
Returns Inward	100
Cash at Bank	400
Cash in Hand	40

The stock on 31st December, 1951, was valued at £600.

14. From the following trial balance of Charles Morgan, at 31st December, 1951, prepare trading and profit and loss accounts for the year ending 31st December, 1951, and a balance sheet as on that date.

1951		*Dr.* £	*Cr.* £
Dec. 31.	Capital		3,900
	Drawings	20	
	Premises	1,000	
	Fixtures and Fittings	400	
	Debtors and Creditors	600	800
	Discounts	40	60
	Rent	100	
	Salaries	400	
	Advertising	100	
	Stock, 1st January, 1951	2,000	
	Purchases and Sales	4,000	5,000
	Returns	100	200
	Cash at Bank	1,000	
	Cash in Hand	200	
		9,960	9,960

The stock on 31st December, 1951, was valued at £2,500.

15. Give the journal entries necessary to record the following in the books of H. Driver, a grocer—

(*a*) His stock was valued on 31st December, 1951, at £4,052.

(*b*) The purchase from Office Supplies, Ltd., on 31st March, 1952, of a desk for £25 and stationery costing £10.

(*c*) A credit note received on 30th April, 1952, from P. Roberts for £10 in respect of goods returned to him. (*R.S.A.*)

CHAPTER IX

CALCULATION AND COMPARISON OF RESULTS (II)

A DETAILED analysis of the trading results of a business is a necessary aid to its efficient management. The results of one year are, of course, useful, but for the accurate interpretation of the trend of a business, it is essential to analyse and compare (if possible) the results of several years.

Analysis of Trading and Profit and Loss Accounts

In order to compare one result with another, it is necessary to use some form of common denominator. For example, if in one year a trader made a gross profit of £411 on a turnover (i.e. net sales, or sales less returns inward) of £934, and in the following year he made a gross profit of £464 on a turnover of £981, it would be difficult to say which was the higher rate of gross profit.

This difficulty is overcome if the gross profit is expressed as a percentage of turnover.

The trading account of J. Robbins for the week ending 6th December, 1952, shows a gross profit of £120 12s. As a percentage of sales this gross profit is—

$$\frac{120{\cdot}6 \times 100}{603} = 20{\cdot}0 \text{ per cent}$$

It will be appreciated that if cost and selling prices remain unaltered in subsequent periods, this percentage will remain the same irrespective of the amount of the turnover, and that changes in the percentage will only be brought about by changes in either of these prices. If the selling price increases while cost price remains the same, then the percentage of gross profit on sales will be greater.

Another very useful figure which can be used as an index of efficiency in running a business is the percentage of net profit to turnover.

The profit and loss account for the week ending 6th December, 1952, shows a net profit of £76 1s. As a percentage of sales this net profit is—

$$\frac{76{\cdot}05 \times 100}{603} = 12{\cdot}6 \text{ per cent}$$

It would be of even greater assistance if all items of expenditure in the profit and loss account were translated into percentages on turnover. This would facilitate comparison with like items for previous years and show at a glance those variations which called for investigation. In this manner effective control of expenditure could be maintained.

From the formula Net Profit = Gross Profit *minus* Expenses, it will be seen that an increase in the percentage of net profit on turnover while gross profit percentage remains the same indicates that the expenses of running the business have been reduced, or, in other words, that the business is running more efficiently. A fall in the percentage of net profit on turnover will indicate an increase in the expenditure percentages.

As has just been mentioned, business prosperity depends very largely upon turnover. Increases in expenses are always permissible if they are accompanied by increased turnover and lead to an increase in the *amount* of net profit.

A test of the relative efficiency of a business when compared with other businesses, or of whether the business may be considered a good investment, would be to ascertain the percentage of net profit on capital. Reference to J. Robbins's balance sheet as at 6th December, 1952, will show his to be—

$$\frac{76{\cdot}05 \times 100}{820} = 9{\cdot}27 \text{ per cent}$$

It must be noted that the period under consideration is one week. If the average return for retail tobacconists for a like period were 8 per cent, then J. Robbins could be said to be running his business efficiently; there would be no question as to the excellence of the investment.

The average stock held during a period is calculated by dividing the sum of the opening and closing stocks by two. J. Robbins had no opening stock on 1st December, hence his average stock for the week ending 6th December will be £323 2s. ÷ 2 = £161 11s.

The rate of turnover will be found by dividing the cost of the goods sold by the average stock. In the example quoted, this figure will be found by dividing £482 8s. by £161 11s., which shows that the stock was turned over three times in one week, which is an extremely high rate.

Analysis of the Balance Sheet

A balance sheet is a statement of the financial position of a business as at one particular date. It gives the final result at the end of a period, but not details of the factors which have contributed to the result, which have to be determined from an examination of the trading and profit and loss accounts for the period supplemented by a comparison with the final accounts of previous periods. A critical examination of a balance sheet can, however, provide much useful information to those who are seeking it.

A prospective supplier may be anxious to assess the chance of being paid; a banker, considering the request for a loan, would wish to assess the financial state of the firm and the trend of its business, and to do so would want to study the final accounts of recent years; while a prospective investor would be interested in the firm's present and future earning capacities, and in the general soundness of its constitution.

Before a critical examination of a balance sheet can be attempted, it is necessary to become acquainted with the terms used in modern business to indicate the different items of which it is comprised.

Assets

Fixed Assets. These are the assets of a permanent nature which are used over and over again in a business. For example, the fixed assets in a chemist's business would be the shop, its fittings, cash register and scales. Such assets have been defined as "assets not held for sale or for conversion into cash."

Current Assets. These are assets which are not held permanently, and have been defined as "cash and assets held for conversion into cash." They are often referred to as "floating" or "circulating" assets, and an example is provided by the item stock, which, when sold, becomes a debt due to the business, and on settlement becomes cash, which in turn may be used to buy fresh stock.

It must be pointed out that it is impossible to classify assets without knowing the intention for which they were acquired. A fixed asset in one business may be a current asset in another. For example, a motor van in the showrooms of a firm of distributors would form part of stock for sale, but to a purchaser wishing to use it for delivery purposes it would become a fixed asset; it might eventually be re-sold, but that would not be the reason for its acquisition.

Liquid Assets. These are assets which are available at short notice; examples are cash in hand and at the bank (on current or deposit account) and gilt-edged or other easily realizable securities.

Fictitious Assets. As the name implies, these are assets of an unreal nature and mainly consist of balances which have not been written off, such as rates paid in advance, but which will eventually be absorbed in the succeeding trading period.

Intangible Assets. This term describes those items which are not realizable unless the business is sold, an example being provided by goodwill, which may be generally described as the value of a firm's trading connection.

Liabilities

Long-term Liabilities. This term relates to liabilities which have not to be met in the immediate future, such as a loan to remain outstanding for a period of years.

Current Liabilities. These consist of liabilities due for immediate or early settlement, e.g. trade creditors.

Contingent Liabilities. These are contingent or dependent upon some future event or possible future event to establish their extent or existence. A guarantor for another person's debt incurs a contingent liability of which he does not free himself until the debtor makes settlement. Again, a pending action for damages is a contingent liability of the party sued. In the first example the liability might never materialize; in the second, its extent is unknown, or again may not materialize if the action fails. If a firm should have incurred such a liability, a note to that effect should be entered in its balance sheet, to read: "There is a contingent liability in respect of guaranteed debts amounting to £——" or, "There is a contingent liability in respect of a claim for legal damages amounting to £——."

In analysing a balance sheet containing a note of a contingent liability, an effort must be made to assess the chances of the liability becoming a real one, and what the effect would be upon the finances or good name of the company.

Capital. The amount of capital shown on the liabilities side of the balance sheet represents the extent of the owner's financial interest in the firm, and in the case of a sole trader, fluctuations in this amount may be in direct proportion to the fortunes of the business, having due regard, of course, to amounts withdrawn or paid in.

"Working capital" is a term used to refer to the excess of current assets over current liabilities, and represents, therefore, the resources which are immediately available for running the business. A business is said to be "overtrading" when current assets are insufficient to meet current liabilities.

"Working margin" refers to the amount by which cash available exceeds current liabilities.

The capital employed by a business is clearly represented by the total amount of the liabilities side of the balance sheet, for whether it be proprietor's capital, bank loan, or sums owing to creditors, the fact remains that these amounts have all been used as capital which has been laid out in acquiring the assets shown on the other side of the balance sheet.

The capital owned by a business is the amount by which the total of the assets side of the balance sheet exceeds the total of external liabilities; in other words, the net assets. If these figures are complete and are truly assessed, this excess represents what the business is worth.

The balance sheet of J. Robbins at 6th December, 1952, is now reproduced for the purpose of critical analysis—

BALANCE SHEET OF J. ROBBINS AS AT 6TH DECEMBER, 1952

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.
Creditors				507	10	–	Delivery Van	100	–	–
	£	s.	d.				Fixtures and Fittings	100	–	–
Capital	820	–	–				Stock	323	2	–
Add Net Profit	76	1	–				Debtors	243	–	–
				896	1	–	Cash at Bank	569	9	–
							Cash in Hand	68	–	–
				1,403	11	–		1,403	11	–

The working capital (current assets £1,203 11s. *less* current liabilities £507 10s.) amounts to £696 1s. This indicates a

healthy condition, and would be reassuring to a supplier considering granting credit to this firm. On the other hand, the amount of working capital would appear to be in excess of present requirements, and in the absence of additional business to ensure the profitable employment of this excess, the withdrawal and investment of some of the funds from the bank would be worth consideration.

It must, however, be carefully borne in mind that working capital does not consist entirely of cash; other items are involved, notably stock and debtors, against which cheques cannot be drawn. These items may be quickly realizable, but in a time of depression sales and debt settlements slow down. Consequently, when assessing the financial position of a business its cash position and the availability of a bank overdraft have to be considered. A lack of cash can hamper a business considerably, but is not necessarily an indication that it does not possess a good margin of current assets over current liabilities. The successful conduct of a business therefore calls for the maintenance of ample cash resources.

In view of his cash position, it is unlikely that J. Robbins would be seeking a loan from the bank, but should he wish to do so there is little doubt that it would be granted.

The financial stability of the firm is also emphasized by the fact that there has been no need to borrow money; at the same time it must be pointed out that borrowing does not necessarily mean that a firm is unsound.

A high figure for goodwill is usually not a good sign. In a balance sheet the total of the assets equals that of the liabilities, so that to meet all the liabilities all the assets, including goodwill, must be realizable at their face values. The undervaluation of goodwill in the balance sheet, or, better still, its absence altogether, are evidence of prudent accounting.

Display of Comparative Figures

In making an analysis of the results and trend of a business it is very helpful to show them in columnar fashion as illustrated below—

	Percentages of Turnover					
	1947	1948	1949	1950	1951	1952
Gross profit . .	55·0	55·6	55·8	55·2	56·0	56·4
Net profit . . .	20·1	26·2	27·0	27·1	28·1	29·2

These figures show a healthy trend, as net profit percentage of turnover is increasing in relation to the percentage shown by gross profit.

Expenses could also be displayed in a similar manner—

	Percentages of Turnover				
	1947	1948	1949	1950	1951
Salaries . . .	23·89	24·00	23·78	23·76	23·75
Carriage outward .	3·15	3·14	3·12	3·10	3·09
Rent . . .	5·60	5·40	5·50	5·41	5·40
Advertising . .	2·30	2·31	2·20	2·19	2·17

All items in the profit and loss account could be dealt with in this way, which would make for effective control over expenditure.

There are, of course, other directions in which inquiries could be made when judging the financial condition of a business. For example, a tendency for the ratio of current liabilities to current assets to increase will indicate a tendency towards overtrading.

An increase in the ratio of stock to turnover may indicate difficulties in selling goods or an increase in obsolete stock, while an increase in the ratio of book debts to turnover may disclose that credit is being extended to traders who are financially unsound, thus increasing the risk of bad debts arising.

Careful investigation should also be made into the methods of arriving at the value of fixed assets to see that adequate allowances have been made for depreciation, which is an annual figure charged in the accounts to offset wear and tear of the asset, a figure which may at times need to be increased to allow for obsolescence or other charges not occasioned by ordinary usage.

Analysis and Comparison of Balance Sheets

If the financial condition of a business is to be assessed, balance sheets relating to as many previous years as possible should be available for reference in order that the trend may be measured, and use should also be made of the trading and profit and loss accounts for those years. Whilst nothing can take the place of long experience in analysing balance sheets, which enables the expert to detect financial

weakness, the following analysis and comparison of two successive balance sheets of A. Street, Newsagent, should be of assistance—

BALANCE SHEET OF A. STREET, NEWSAGENT
AS AT 31ST DECEMBER, 1951

Liabilities	£	£	*Assets*	£	£
Current Liabilities			*Fixed Assets*		
Creditors			Premises	5,000	
Trade	400		*Less* Depreciation	100	
Rent	20				4,900
Wages	50		Fixtures and Fittings	1,000	
		470	*Less* Depreciation	50	
Capital					950
Balance at 1st January	8,000		Delivery Vans	1,000	
Add Net profit for year	1,200		*Less* Depreciation	200	
					800
	9,200		*Current Assets*		
Less Drawings	420		Stock		1,000
		8,780	Debtors		800
			Cash at Bank		700
			Cash in Hand		100
		9,250			9,250

BALANCE SHEET OF A. STREET, NEWSAGENT
AS AT 31ST DECEMBER, 1952

Liabilities	£	s.	d.	£	s.	d.	*Assets*	£	s.	d.	£	s.	d.
Current Liabilities							*Fixed Assets*						
Creditors							Premises	4,900	–	–			
Trade	300	–	–				*Less* Depreciation	98	–	–			
Wages	24	10	–								4,802	–	–
				324	10	–	Fixtures and Fittings	950	–	–			
Capital							*Less* Depreciation	47	10	–			
Balance at 1st January	8,780	–	–								902	10	–
Add Net profit for year	1,400	–	–				Delivery Vans	800	–	–			
	10,180	–	–				*Less* Depreciation	160	–	–			
Less Drawings	450	–	–								640	–	–
				9,730	–	–	*Current Assets*						
							Stock				1,400	–	–
							Debtors				1,000	–	–
							Cash at Bank				1,200	–	–
							Cash in Hand				110	–	–
				10,054	10	–					10,054	10	–

The balance sheet figures are now arranged for purposes of comparison—

	£	s.	d.	£	s.	d.
Fixed assets	6,650	–	–	6,344	10	–
Current assets	2,600	–	–	3,710	–	–
Current liabilities	470	–	–	324	10	–
Capital	8,780	–	–	9,730	–	–

	Per Cent	*Per Cent*
Rate of current liabilities to current assets	18·0	8·7
Rate of cash to current assets	30·8	35·3
Profit on capital	15·0	15·9

Attention is directed to the following points—

1. Both years disclose a very healthy financial condition, as current assets well exceed current liabilities.
2. The cash position is strong, leaving a good surplus for contingencies after meeting creditors' requirements.
3. Proprietor's capital has increased, indicating that there have not been any excessive withdrawals.
4. The return on invested capital of 15 per cent and 15·9 per cent for 1951 and 1952 respectively can be considered as very satisfactory.
5. Adequate provision for depreciation of fixed assets has been made in both years, which shows that profit figures have not been artificially increased by the failure to allow for wear and tear of these assets.
6. A healthy trend is exhibited in the considerable reduction in the ratio of current liabilities to current assets.

EXERCISE IX

1. From the following balance sheet calculate the answers to the questions given—

BALANCE SHEET—S. SANDERS

Liabilities	£	*Assets*	£
Creditors	1,600	Cash	60
Capital	5,700	Bank	540
Loan	700	Debtors	1,900
		Stock at Cost	2,500
		Plant and Machinery	3,000
	8,000		8,000

(*a*) What is the total of Sanders's current assets?

(*b*) If one-fifth of the stock were sold for £600 what would be the capital account balance?

(*c*) What is the amount of Sanders's working capital?

(*d*) If the market value of the stock is £2,300 what should the Capital Account balance be?

(*e*) If Sanders's creditors do *not* include £50 which he owes for rates what should his Capital Account be? (*R.S.A.*)

2. The following trial balance was extracted from the books of B. Hill on 30th April, 1951—

	Dr.	*Cr.*
	£	£
Capital 1st May, 1951 (Debit Balance)	100	
Sundry Debtors	210	
Sundry Creditors		900
Profit for the year to 30th April, 1951		50
Freehold Premises	580	
Drawings during year	500	
Stock	415	
Bank Overdraft		300
Loan from P. Phillips		600
Cash in Hand	45	
	1,850	1,850

Draw up B. Hill's balance sheet as on 30th April, 1951, and state whether in your opinion it shows a sound financial position, giving reasons for your answer. (*R.S.A.*)

3. Would the critical analysis of a balance sheet be sufficient to judge the financial stability of a business? Give reasons for your answer.

4. What would be your first reaction to the financial condition of a business on seeing a high figure for goodwill in the balance sheet? Give reasons for your reactions.

5. Suggest three indexes of the financial condition of a business which a balance sheet should provide, and explain the contribution made by each.

6. Would a bank overdraft on the face of the balance sheet of a business necessarily indicate financial instability? Give reasons for your answer.

7. From the following balance sheet of C. English as at 31st March, 1952, calculate the answers to the questions given below.

(*a*) What is the total of English's circulating assets?

(*b*) What is the total of his fixed assets?

(*c*) What is his working capital?

(*d*) If English had not depreciated his machinery what would his capital be?

Liabilities		£	*Assets*		£
Creditors		1,450	Cash at Bank		150
Capital	£4,800		Debtors		2,350
Add Net Profit	250		Stock		1,000
	5,050		Furniture and Fittings		260
Less Drawings	240		Machinery	£550	
		4,810	*Less* Depreciation	50	
					500
			Land and Buildings		2,000
		6,260			6,260

(*e*) If furniture and fittings are worth only £200 what should the net profit be?

(*f*) If on 1st April, 1952, a machine was bought on credit for £150 what would the creditors then be? (*R.S.A.*)

8. Would you be prepared to invest money in the businesses whose balance sheets are shown below? Give reasons for your answer.

Business No. 1. Balance Sheet of Alfred Snow as at 31st December, 1952—

Liabilities		£	*Assets*		£
Bank Overdraft		5,000	Goodwill		1,000
Creditors		1,000	Premises		4,000
Capital	£3,400		Fixtures		400
Add Net Profit	40		Stock		1,000
		3,440	Debtors		3,000
			Cash in Hand		40
		9,440			9,440

Business No. 2. Balance Sheet of Fred Winter as at 31st December, 1952—

Liabilities		£	*Assets*		£
Bank Overdraft		100	Premises		2,600
Creditors		2,000	Fixtures		400
Capital	£5,000		Stock		600
Add Net Profit	500		Debtors		3,600
		5,500	Cash		400
		7,600			7,600

9. If a banker wishes to make a thorough investigation into the financial condition of a business which has applied for a large loan or overdraft, what would you expect the banker to ask for, and why?

10. Give the balance sheet of a financially sound business. Analyse critically your balance sheet and say why the business is financially sound.

11. Give the balance sheet of a financially unsound business. Analyse critically your balance sheet and explain why the business is financially unsound.

12. How would you use the figures given in the trading and profit and loss accounts in assessing the financial condition of a business?

13. As the manager of a business, which figures in the final accounts would you scrutinize and compare with the figures of previous years? Give reasons for your answers.

14. What would be the financial consequences to a firm which consistently charged too little for the depreciation of its fixed assets?

CHAPTER X

A WORKED EXAMPLE WITH FINAL ACCOUNTS

In scrutinizing the following worked example, attention should be directed to the following points—

Dates

To record a transaction without at the same time recording its date results in confusion and waste of time. The date should be shown as a simple figure, e.g. 2, 3, and 4, and not as 2nd, 3rd and 4th. This is much neater, and needs less space.

The year in which the trading takes place should be shown at the top of the date column, followed by the month. Changes in month and year should be recorded as they arise, and be entered once only. Repetitions are unnecessary, as also are ditto signs. The same remarks apply to the day of the month; enter only changes of date.

In working exercises, a single sheet of paper may contain representations of several subsidiary books, but each of these must be dated separately.

Ink

Entries must be made in ink only; a pencil must not be used. There is a strong temptation for students to make entries which can be erased if incorrect, but it is very bad practice. In business, book-keeping entries have to be made in ink, and the student should follow the same rule as part of his preparation.

Neatness and Accuracy

Neatness is a great aid to accuracy in book-keeping, and the need for legibility of words and figures cannot be too strongly stressed. A badly shaped 3 may look like a 5, and at times a vague 4 will be taken for a 7.

In arranging figures, care should be taken to put units under units, tens under tens, etc. The vertical ruling can be of

assistance here; if units touch the adjacent red line the ranging of the rest of the figures will be made easier.

In the "particulars" columns of the cash book and ledger, the words "To" and "By" should be written once only as the first line in each balanced section, reappearing only on the bringing down or bringing forward of the balance. Ditto signs are unnecessary and can be untidy.

Succeeding entries should then be indented and aligned vertically, e.g. on the debit side of the cash book the "S" of Sales appears under the "B" of Balance.

Lines should be ruled, and double rulings should be as close together as possible.

The folio columns in every book should be used exclusively for folio numbers, and not be overrun by matter from other columns.

Consecutive transactions with the same trader on different dates will nevertheless require the entry of his name on each occasion; this particularly refers to entries in purchases and sales books.

The unnecessary use of noughts should be avoided. For example, £52 should be entered in the cash column as £52 – – and not £52 0 0. Badly made ciphers can resemble the figure 6, so their use is best restricted.

Ledger

In practice the ledger is always subdivided, and an effort should therefore be made to subdivide it in the classroom. The method of subdivision has already been explained, but one further point may be added, and that is the suggested grouping of personal accounts into debtors and creditors.

Stock

The peculiarities of this item have already been mentioned. Is it a nominal or a real account?

It is suggested that it be included among the nominal accounts transferred to trading account, as the stock account does not record transactions in items which are used over and over again in the business as fixed assets. Stock is always a circulating asset, but it has of course to appear among the assets in the balance sheet, at the date of which it is dealt with in both its aspects.

Posting

The student should enter up all subsidiary books before dealing with the cash book, so that amounts due may be checked before payments are recorded. Of course this problem would not arise in a counting house where the book-keeping would probably be the joint task of a number of persons.

The following method of posting is recommended—

1. After completing all books of original entry, make a written note of all the ledger accounts required, obtaining the necessary headings from all the subsidiary books, including the cash book.

2. Make headings for these accounts in their proper order in the ledger, giving each a folio number. This task must be completed before any items are posted to the ledger.

3. It is absolutely necessary to insert folio numbers and letters as each entry is posted, otherwise posting loses some of its usefulness, and the omission of a folio number may result in an amount being posted twice. When this operation is performed systematically and carefully, folio columns can be relied upon to show at a glance how the work of posting is progressing, and any items whose posting has been overlooked.

Moreover, should the work of posting be temporarily handed over to another book-keeper, careful folio work will ensure easy continuity, as a quick reference by the newcomer to the folio columns will disclose what posting has been done and what has yet to be done.

Balancing

Accounts which contain only one entry should be left entirely alone (e.g. T. Naylor's capital and drawings accounts). Where an account has one entry, on each side, of the same amount, like Mrs. Smith's account in T. Naylor's ledger, simply rule two lines under each side, placing the £ sign alongside the amount. It should be noted that for typographical reasons, the £ sign has been omitted from totals in tabular matter.

Each entry in the ledger should occupy one line only, to ensure which suitable abbreviations may be used.

The purpose of balancing at regular intervals during the trading period is to prevent columns of figures becoming unwieldy; the balances of all accounts should be brought down,

except in the case of the accounts containing a single entry, or when it is intended to prepare final accounts, when the contents of the nominal accounts are transferred to the trading and profit and loss account. The name of the month and the word "To" or "By" should accompany a balance brought down as it constitutes the first entry in the new period, and no space should be left between the balance brought down and the total appearing above it.

When compiling final accounts, certain accounts have to be closed by the transference of their balances to trading or profit and loss account, e.g. sales and rent.

Those accounts which have to appear in the balance sheet have their balances brought down as usual. In fact, one definition of a balance sheet refers to it as a list of balances remaining in the ledger after all necessary transfers have been made to the trading and profit and loss accounts.

Classification of Expenses

In order to control expenses and reduce inefficiency, it is necessary to classify expenses. For example, in T. Naylor's ledger, it would have been easier to enter petrol and motor repairs under the inclusive heading of "Motor Expenses," but to do so would have made it difficult to control either petrol consumption or repairs expenditure. Consequently, expenses should be split up finely enough to permit efficient control.

An account for "General Expenses" should contain only small items for which a separate account is not worth while.

Cash Book

Contra entries. A payment of cash into the bank, or a withdrawal of cash from the bank, involves in each case an entry on both sides of the cash book. These are referred to as "contra" entries and against them in the folio columns are written the letter "C" (for contra) which shows that the double entry is completed on the opposite side.

Balancing. When ruling off the cash book preparatory to balancing, total the discount columns and rule them off at the same level; insert the cash and bank balances, and total the cash and bank columns on both sides, ruling off at the same level. The discount totals should appear higher on the page than the other totals.

The ledger account number can appear in the folio column against each discount total.

Cash transaction—trader's name. When recording a cash transaction in which the name of the trader is mentioned, the student should not restrict the entry to the person's name. For example, on 9th October T. Naylor bought from Shentalls greengroceries value £10 less 10 per cent trade discount, immediate payment by cheque being made. If the entry in the cash book had been made in the supplier's name, his ledger account would have been debited, which would have had the effect of reducing the balance due to him on the ledger account, or, in the absence of such a balance, showing him as a debtor, which of course would be completely wrong. Note that no discount appears in the discount column, as the allowance was *trade* and not cash discount.

Payment of account to date. When it is mentioned that a trader's account has been paid "to date," care should be taken to determine the amount by reference to the amount owing at the beginning of the period as amended by all subsequent transactions.

Payment in full settlement. If a trader effects full settlement of a debt by the payment of a smaller sum, the difference obviously represents cash discount. For example, on 6th October Mrs. Smith paid T. Naylor £14 12s. 6d. in full settlement of her debt of £15. The cash book records the difference as discount allowed.

Trial Balance

Compile the trial balance before balancing the ledger, so that any mistakes discovered may be corrected through the journal. It should be noted that all rectification should be done in this manner and not by alteration of entries.

Remember that the cash balances have to be included in the trial balance.

Balance Sheet

Order of assets and liabilities. It is generally accepted that assets should be entered in order of permanency, except in bank balance sheets, where precedence is determined by liquidity. With regard to liabilities, there does not seem to be the same general agreement, but for the sake of uniformity,

place these in order of priority, putting amounts owing to trade creditors or to the bank before proprietor's capital.

Debtors and creditors. It is not customary to name each debtor and creditor in the balance sheet. To do so would serve no purpose and would extend the document very considerably, hence the use of the omnibus items "Sundry Debtors" and "Sundry Creditors." This rule applies mainly to trade debtors and creditors. Liabilities such as loans or taxes outstanding should be shown separately.

Expense Allocation in Final Accounts

It is customary to show in the trading account items of expenditure directly attributable to the handling of goods before sale. Thus Carriage Inward account, i.e. the carriage incurred on purchases, should appear in the trading account, as also should wages if they are of a sufficiently direct character. These expenses usually vary in direct proportion to turnover.

On the other hand, salaries, rents, rates, and other charges which do not directly enter into the cost of the goods and their handling, appear in the profit and loss account, and tend to vary to a lesser extent with turnover.

Loans

These necessitate special accounts in the ledger, and must be distinguished from the usual type of personal account.

Assume that £100 were borrowed from F. Smith.

A debit entry in the borrower's cash book would record the receipt of the amount as "To F. Smith Loan Account £100." A ledger account "F. Smith Loan Account" would be opened in the ledger, and to its credit side would be posted "By Cash £100."

Again, if £200 were lent to R. Jones, the lender would enter "By R. Jones Loan Account £200" in his cash book, which entry would be posted to the debit of R. Jones Loan Account in the ledger as "To Cash £200."

The receipt of interest on a loan will be recorded in the cash book "To Loan Interest" and posted to the credit of a Loan Interest Account in the ledger.

Payment of interest would need a cash book credit entry "By Loan Interest" to be posted to the debit of Loan Interest Account in the ledger.

In the final accounts, interest received, being a gain, would be shown on the credit side of the profit and loss account while interest paid would be shown as a debit.

The books of T. Naylor, greengrocer, showed the following position on 1st October, 1951—

Cash in hand £15; Cash at bank £900; Freehold shop £1,000; Fixtures and fittings £100; Stock £100; Debtors: Mrs. Jones £10; Mrs. Smith £15; Mrs. Rowe £12. Creditors: Shentalls £100; Woodheads £50.

Record the above, enter the following transactions in the subsidiary books, post to the ledger, extract a trial balance, calculate T. Naylor's stock at 15th October, 1951 (assuming an overall profit on sales of 25 per cent), and prepare final accounts for the fortnight ending 13th October, 1951.

1951

Oct. 1. Paid Shentalls and Woodheads amounts due to them by cheque, *less* 2½ per cent cash discount.
Cash sales £40.

2. Mrs. Rowe paid £6 on account by cheque (paid into bank).
Cash sales £30.

3. Paid £60 cash into bank.
Cash sales £20.

4. Bought from Shentalls on credit greengroceries £100 *less* 20 per cent trade discount.
Returned greengroceries to Shentalls, £10, in very bad condition.
Cash sales £30.

5. Paid £20 cash into bank.
Bought greengroceries from Woodheads £50, giving pair of scales valued at £30 in part payment, the balance being paid by cheque.
Cash sales £70.

6. Paid all cash into bank except £10.
Mrs. Smith paid £14 12s. 6d. in full settlement by cheque (paid into bank).
Cash sales £10.

7. Bought from Shentalls, £200 greengroceries on credit *less* 25 per cent trade discount.
Sold Mrs. Thompson cabbages £25 on credit *less* 20 per cent trade discount.
Mrs. Thompson returned cabbages £10, in rotted condition.

9. Cash sales £40.
Bought from Woodheads, £50 greengroceries on credit *less* 20 per cent.
Exchanged an old counter worth £15 for shelves of same value.
Bought from Shentalls greengroceries £10 *less* 10 per cent trade discount, and paid by cheque.

Oct. 10. Cash sales £30.
Transferred all cash to bank except £10.
Exchanged greengroceries £10 for new pair of scales.
11. Cash sales £40.
Bought of Shentalls, greengroceries £50 *less* 10 per cent trade discount.
Withdrew £20 cash from bank.
Paid salaries in cash, £10.
Withdrew by cheque £10 for private purposes.
Paid rent in cash, £14.
Paid for stationery, cash £2.
Paid for petrol, cash £2.
Paid for motor repairs, cash £5.
Paid for office cleaning, cash £2.
12. Cash sales £80.
13. Paid all cash into bank except £5.

JOURNAL

1951				£	£
Oct. 1	Cash in Hand . . . . . *Dr.*	C.	15		
	Cash at Bank	C.	900		
	Freehold Shop	3	1,000		
	Fixtures and Fittings	4	100		
	Stock	19	100		
	Mrs. Jones	5	10		
	Mrs. Smith	6	15		
	Mrs. Rowe	7	12		
	To Shentalls	9			100
	Woodheads	10			50
	Capital	1			2,002
	Being assets, liabilities and capital at this date.				
				2,152	2,152
5	Purchases . . . . . *Dr.*	20		30	
	To Fixtures and Fittings . . .	4			30
	Being disposal of pair of scales as part payment for greengroceries.				
9	Fixtures and Fittings . . . *Dr.*	4		15	
	To Fixtures and Fittings . . .	4			15
	Being exchange of old counter for shelves.				
10	Fixtures and Fittings . . . *Dr.*	4		10	
	To Sales	22			10
	Being exchange of greengroceries for new pair of scales.				

Dr. CASH BOOK *Cr.*

1951			Discount £ s. d.	Cash £ s. d.	Bank £ s. d.	1951			Discount £ s. d.	Cash £ s. d.	Bank £ s. d.
Oct. 1	To Balance .	J.		15 – –	900 – –	Oct. 1	By Shentalls .	9	2 10 –		97 10 –
	Sales . .	22		40 – –			Woodheads .	10	1 5 –		48 15 –
	Mrs. Rowe .	7			6 – –	3	Bank . .	c		60 – –	
	Sales . .	22		30 – –		5	Bank . .	c		20 – –	
3	Cash . .	c			60 – –		Purchases .	20			20 – –
	Sales . .	22		20 – –		6	Bank . .	c		115 – –	
4	Sales . .	22		30 – –		9	Purchases .	20			9 – –
5	Cash . .	c			20 – –	10	Bank . .	c		80 – –	
	Sales . .	22		70 – –		11	Cash . .	c			20 – –
6	Cash . .	c			115 – –		Salaries .	11		10 – –	
	Mrs. Smith .	6	7 6		14 12 6		Drawings .	2			10 – –
	Sales . .	22		10 – –			Rent . .	12		14 – –	
9	Sales . .	22		40 – –			Stationery .	13		2 – –	
10	Sales . .	22		30 – –			Petrol . .	14		2 – –	
	Cash . .	c			80 – –		Motor Repairs	15		5 – –	
11	Sales . .	22		40 – –			Office Cleaning	16		2 – –	
	Bank . .	c		20 – –		13	Bank . .	c		110 – –	
12	Sales . .	22		80 – –			Balance .	c/d		5 – –	1,100 7 6
13	Cash . .	c			110 – –						
		17	7 6					18	3 15 –		
				425 – –	1,305 12 6					425 – –	1,305 12 6
Oct. 14	To Balance .	b/d		5 – –	1,100 7 6						

PURCHASES BOOK

1951			£	£
Oct. 4	Shentalls			
	Greengroceries		100	
	Less 20 per cent trade discount .		20	
		9		80
7	Shentalls			
	Greengroceries		200	
	Less 25 per cent trade discount .		50	
		9		150
9	Woodheads			
	Greengroceries		50	
	Less 20 per cent trade discount .		10	
		10		40
11	Shentalls			
	Greengroceries		50	
	Less 10 per cent trade discount .		5	
		9		45
	Debit Purchases account	20		315

RETURNS OUTWARD BOOK

1951			£	£
Oct. 4	Shentalls			
	Greengroceries (dirty condition) .	9		10
	Credit Returns Outward account . .	21		10

SALES BOOK

1951			£	£
Oct. 7	Mrs. Thompson			
	Cabbages		25	
	Less 20 per cent trade discount .		5	
		8		20
	Credit Sales account	22		20

RETURNS INWARD BOOK

1951			£	£
Oct. 7	Mrs. Thompson			
	Cabbages (rotted)	8		10
	Debit Returns Inward account . .	23		10

LEDGER

1 *Dr.* CAPITAL *Cr.* 1

				1951			£
				Oct. 5	By Sundries . .		2,002

2 *Dr.* DRAWINGS *Cr.* 2

1951			£				
Oct. 11	To Cash . .	C.	10				

3 *Dr.* FREEHOLD SHOP *Cr.* 3

1951			£				
Oct. 1	To Balance . .	J.	1,000				

4 *Dr.* FIXTURES AND FITTINGS *Cr.* 4

1951			£		1951			£
Oct. 1	To Balance . .	J.	100		Oct. 5	By Purchases . .	J.	30
9	Fixtures and Fittings . .	J.	15		9	Fixtures and Fittings . .	J.	15
10	Sales . .	J.	10		13	Balance . .	c/d	80
			125					125
Oct. 14	To Balance . .	b/d	80					

5 *Dr.* MRS. JONES *Cr.* 5

1951			£				
Oct. 1	To Balance . .	J.	10				

6 *Dr.* MRS. SMITH *Cr.* 6

1951			£	1951			£
Oct. 1	To Balance . .	J.	15	Oct.	By Cash and Discount . .	C.	15

7 *Dr.* MRS. ROWE *Cr.* 7

1951			£		1951			£
Oct. 1	To Balance . .	J.	12		Oct. 2	By Cash . .	C.	6
					13	Balance . .	c/d	6
			12					12
Oct. 14	To Balance . .	b/d	6					

8 *Dr.* MRS. THOMPSON *Cr.* 8

1951			£	1951			£
Oct. 7	To Goods . .	S.	20	Oct. 7	By Returns . .	R.I.	10
				13	Balance . .	c/d	10
			20				20
Oct. 14	To Balance . .	b/d	10				

9 *Dr.* SHENTALLS *Cr.* 9

1951			£	1951			£
Oct. 1	To Cash and Discount . .	C.	100	Oct. 1	By Balance . .	J.	100
				4	Goods . .	P.	80
4	Returns . .	R.O.	10	7	Goods . .	P.	150
13	Balance . .	c/d	265	11	Goods . .	P.	45
			375				375
				Oct. 14	By Balance . .	b/d	265

10 *Dr.* WOODHEADS *Cr.* 10

1951			£	1951			£
Oct. 1	To Cash and Discount . .	C.	50	Oct. 1	By Balance . .	J.	50
				9	Goods . .	P.	40
13	Balance . .	c/d	40				
			90				90
				Oct. 14	By Balance . .	b/d	40

11 *Dr.* SALARIES *Cr.* 11

1951			£	1951			£
Oct. 11	To Cash . .	C.	10	Oct. 13	By Profit and Loss Account . .		10

12 *Dr.* RENT *Cr.* 12

1951			£	1951			£
Oct. 11	To Cash . .	C.	14	Oct. 13	By Profit and Loss Account . .		14

13 *Dr.* STATIONERY *Cr.* 13

1951			£	1951			£
Oct. 11	To Cash . .	C.	2	Oct. 13	By Profit and Loss Account . .		2

14 *Dr.* PETROL *Cr.* 14

1951			£	1951			£
Oct. 11	To Cash . .	C.	2	Oct. 13	By Profit and Loss Account . .		2

15 *Dr.* MOTOR REPAIRS *Cr.* 15

1951			£	1951			£
Oct. 11	To Cash . .	C.	5	Oct. 13	By Profit and Loss Account . .		5

16 *Dr.* OFFICE CLEANING *Cr.* 16

1951			£	1951			£
Oct. 11	To Cash . .	C.	2	Oct. 13	By Profit and Loss Account . .		2

17 *Dr.* DISCOUNTS ALLOWED *Cr.* 17

1951			£ s. d.	1951			£ s. d.
Oct. 13	To Sundries .	C.	7 6	Oct. 13	By Profit and Loss Account .		7 6

18 *Dr.* DISCOUNTS RECEIVED *Cr.* 18

1951			£ s. d.	1951			£ s. d.
Oct. 13	To Profit and Loss Account .		3 15 –	Oct. 13	By Sundries .	C.	3 15 –

19 *Dr.* STOCK *Cr.* 19

1951			£	1951			£
Oct. 1	To Balance . .	J.	100	Oct. 13	By Trading Account		100

20 *Dr.* PURCHASES *Cr.* 20

1951			£	1951			£
Oct. 5	To Fixtures and Fittings . .	J.	30	Oct. 13	By Trading Account		374
	Cash . .	C.	20				
9	Cash . .	C.	9				
13	Sundries . .	P.	315				
			374				374

21 *Dr.* RETURNS OUTWARD *Cr.* 21

1951			£	1951			£
Oct. 13	To Trading Account		10	Oct. 13	By Sundries . .	R.O.	10

22 *Dr.* SALES *Cr.* 22

1951			£	1951			£
Oct. 14	To Trading Account		420	Oct. 1	By Cash	C.	40
				2	Cash	C.	30
				3	Cash	C.	20
				4	Cash	C.	30
				5	Cash	C.	70
				6	Cash	C.	10
				9	Cash	C.	40
				10	Fixtures and Fittings	J.	10
					Cash	C.	30
				11	Cash	C.	40
				12	Cash	C.	80
				13	Sundries	S.	20
			420				420

23 *Dr.* RETURNS INWARD *Cr.* 23

1951			£	1951			£
Oct. 13	To Sundries	R.I.	10	Oct. 13	By Trading Account		10

TRIAL BALANCE OF T. NAYLOR, GREENGROCER, ON 13TH OCTOBER, 1951

		£	s.	d.	£	s.	d.
Capital	1				2,002	–	–
Drawings	2	10	–	–			
Freehold Shop	3	1,000	–	–			
Fixtures and Fittings	4	80	–	–			
Mrs. Jones	5	10	–	–			
Mrs. Rowe	7	6	–	–			
Mrs. Thompson	8	10	–	–			
Shentalls	9				265	–	–
Woodheads	10				40	–	–
Salaries	11	10	–	–			
Rent	12	14	–	–			
Stationery	13	2	–	–			
Petrol	14	2	–	–			
Motor Repairs	15	5	–	–			
Office Cleaning	16	2	–	–			
Discounts Allowed	17		7	6			
Discounts Received	18				3	15	–
Stock	19	100	–	–			
Purchases	20	374	–	–			
Returns Outward	21				10	–	–
Sales	22				420	–	–
Returns Inward	23	10	–	–			
Cash at Bank	C.	1,100	7	6			
Cash in Hand	C.	5	–	–			
		2,740	15	–	2,740	15	–

CALCULATION OF T. NAYLOR'S STOCK
AT 13TH OCTOBER, 1951

	£ s. d.	£ s. d.
Stock at 1st October, 1951		100 – –
Add Purchases	374 – –	
Less Returns Outward	10 – –	
		364 – –
		464 – –
Deduct—		
Sales	420 – –	
Less Returns Inward	10 – –	
	410 – –	
Less 25 per cent gross profit	102 10 –	
		307 10 –
Estimated value of closing stock		156 10 –

TRADING ACCOUNT OF T. NAYLOR
FOR FORTNIGHT ENDING 13TH OCTOBER, 1951

Dr. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Stock, 1st October		100 – –	By Sales	420 – –	
Purchases	374 – –		*Less* Returns	10 – –	
Less Returns	10 – –				410 – –
		364 – –	Stock, 13th October		156 10 –
Gross Profit		102 10 –			
		566 10 –			566 10 –

PROFIT AND LOSS ACCOUNT OF T. NAYLOR
FOR FORTNIGHT ENDING 13TH OCTOBER, 1951

Dr. *Cr.*

	£ s. d.		£ s. d.
To Salaries	10 – –	By Gross Profit	102 10 –
Rent	14 – –	Discounts Received	3 15 –
Stationery	2 – –		
Petrol	2 – –		
Motor Repairs	5 – –		
Office Cleaning	2 – –		
Discounts Allowed	7 6		
Net Profit	70 17 6		
	106 5 –		106 5 –

BALANCE SHEET OF T. NAYLOR
AS AT 13TH OCTOBER, 1951

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Creditors .		305 – –	Freehold Shop		1,000 – –
Capital . .	2,002 – –		Fixtures and Fittings .		80 – –
Less Drawings .	10 – –		Stock . .		156 10 –
	1,992 – –		Debtors .		26 – –
Add Net Profit .	70 17 6		Cash at Bank .		1,100 7 6
		2,062 17 6	Cash in Hand		5 – –
		2,367 17 6			2,367 17 6

It has no doubt already been appreciated that even the small volume of figures in this exercise could cause considerable trouble were they not treated with care and neatness, and it requires little imagination to picture the result arising from neglect of these essentials in a busy office dealing with a large number of transactions.

Careful attention to these remarks will be repaid in the examination room and in the office.

EXERCISE X

1. On 1st June, 1951, H. Masters started in business as a dealer in electrical goods and paid £2,000 into a business banking account as capital.

You are required to record the above and the following transactions through the proper subsidiary books in H. Masters's ledger—

1951

June 3. Paid by cheque £30 for rent of shop.
Bought from L. Merton, the previous tenant, furniture and fittings £115, stock of electrical goods £350, and workshop tools £45. Paid L. Merton the total due to him by cheque.
Drew and cashed a cheque for £35 for office cash.

4. Bought on credit from P. Smith, 6 table lamps at 15s. each, and 12 electric fires at 30s. each.
Sold to R. Bell a radiogram for £50. R. Bell paid £10 on account, which was put into office cash.

5. Bought on credit from F. Hall, 10 wireless sets at £15 each, subject to 20 per cent trade discount.
Cash sales, paid into office cash, £37 15s.

6. Sold on credit to C. Fenton, 2 dozen electric lamps at 30s. per dozen and 6 electric switch plugs at 4s. 9d. each.
Paid £50 to bank from office cash.

June 7. Paid from office cash, salaries £12 and office expenses £3 14s. 6d.
Bought on credit from P. Smith, a job lot of lamp shades £65.
Received from F. Hall, a credit note for one of the wireless sets bought on 5th June, and returned as defective.
8. Paid P. Smith by cheque for the goods bought on 4th June, *less* 5 per cent cash discount.
Paid F. Hall by cheque the amount of his account *less* 2½ per cent cash discount.
10. H. Masters took £10 from office cash to pay private expenses.
Sold for cash, which was not banked, a carpet out of the office, £25.
11. Received from R. Bell, by cheque, a further £10 on account. The cheque was banked.
C. Fenton paid his account by cheque, deducting 3s. cash discount which was allowable. The cheque was banked.

Balance the cash book and ledger accounts, bring down the balances and extract a trial balance as on 11th June, 1951.

N.B. No trading account, profit and loss account or balance sheet is to be prepared. (*R.S.A.*)

2. From the following trial balance at 31st December, 1951, of F. W. Elliott, retail chemist, compile a trading account and profit and loss account for the year ended 31st December, 1951, and a balance sheet as at that date.

	£	£
Capital		5,100
Drawings	100	
Premises	2,000	
Debtors and Creditors	800	500
Discount		100
Salaries	200	
Rent	50	
Stock 1st January, 1951	1,000	
Purchases and Sales	3,000	2,000
Returns	200	100
Cash at Bank	400	
Cash in Hand	50	
	7,800	7,800

Stock on Hand 31st December, 1951, was valued at £2,500.

3. Roger Banks is in business as a chemist. On the 1st January, 1951, his financial position was as follows: Cash in Hand, £40; Cash at Bank, £600; F. Rogers owed £20; M. Oliver owed £20; Stock, £1,000; Fixtures and Fittings, £400; Premises, £1,500; Owing to M. Robinson, £200; Owing to B. Wells, £200.

Record the above position and the following transactions through the proper subsidiary books, post them to the ledger and extract a trial balance as on the 14th January, 1951.

1951

Jan. 1. Paid M. Robinson by cheque amount due to him *less* 2½ per cent cash discount.
Cash sales £300.
Bought new pair of scales valued £100 on credit from The Patent Scale Co., Ltd.

2. Cash sales £100.
Sold old pair of scales valued £40 on credit to M. Partington.
F. Rogers paid by cheque amount due from him *less* 5 per cent cash discount.

3. Bought on credit from F. Woolley 10 dozen lipsticks at £2 per dozen and 2 dozen powder puffs at £1 each, the whole invoice being subject to 20 per cent trade discount.

4. Sold on credit to R. Marsden one dozen powder puffs at £1 each *less* 10 per cent trade discount.
Cash sales £100.
Roger Banks drew out by cheque £20 for private purposes.
Paid £150 cash to bank.
Bought on credit from Razors, Ltd., four dozen shaving sets at £2 each and six dozen razors at 5s. each, the whole invoice being subject to 25 per cent trade discount.

6. Cash sales £200.
Sold on credit to M. Robinson two dozen shaving sets at £2 each *less* 10 per cent trade discount.
Bought and paid for by cheque new delivery van £400 from Motors, Ltd.

7. Cash sales £100.
Drew £60 cash from bank for office purposes.

9. Paid £10 by cheque for advertising.
M. Oliver paid by cheque amount owing by him *less* 2½ per cent cash discount.

10. Cash sales £40.
R. Marsden returned six powder puffs which were of inferior quality.

12. Paid salaries £30 in cash.

13. M. Robinson returned six shaving sets which were damaged in transit.

14. Paid rent £20 by cheque.
Roger Banks took two shaving sets at cost price out of stock for use as presents.

(*R.S.A.*)

4. Journalize the following transactions of S. Townsend, newsagent—

1951

Jan. 1. Bought on credit from the Hercules Bicycle Co., Ltd., new bicycle valued £15 for delivering newspapers.

2. Sold on credit an old pair of scales which was valued £20 to F. Stones.

3. Exchanged books, stationery and newspapers at selling price for a new display cabinet valued £100 from Eyre & Sons.

5. From the following trial balance of P. James, prepare trading and profit and loss accounts for the year ending 31st December, 1951, and a balance sheet as on that date—

TRIAL BALANCE OF R. JAMES AS AT 31ST DECEMBER, 1951

	£	£
Capital		7,900
Drawings	20	
Premises	2,000	
Fixtures and Fittings	400	
Debtors and Creditors	600	800
Discounts	40	60
Rent	100	
Salaries	400	
Advertising	100	
Stock, 1st January, 1951	4,000	
Purchases and Sales	6,000	8,000
Returns	100	200
Cash at Bank	3,000	
Cash in Hand	200	
	16,960	16,960

The stock on 31st December, 1951, was valued at £6,000. (*R.S.A.*)

6. From the following trial balance of T. Jones, greengrocer, compile a trading account and profit and loss account for the year ended 31st December, 1951, and a balance sheet as on that date—

TRIAL BALANCE, 31ST DECEMBER, 1951

	£	£
Capital		7,740
Premises	4,000	
Furniture and Fittings	400	
Motor Lorries	1,000	
Debtors and Creditors	3,000	2,000
Discounts	100	200
Salaries	400	
Salaries owing		100
Rent	40	
Insurance	10	
Carriage Outward	50	
Bad Debts	100	
Cash stolen from till	40	
Stock, 1st January, 1951	1,000	
Purchases and Sales	4,000	3,000
Returns Inward and Outward	200	400
Bank Overdraft		1,000
Cash in Till	100	
	14,440	14,440

Stock in hand 31st December, 1951, was valued at £3,000. (*R.S.A.*)

7. There are some mistakes in the following trial balance. Rewrite the trial balance corrected and explain how the items were inaccurately recorded in the trial balance on the question paper.

TRIAL BALANCE OF L. MASON, CONFECTIONER—
31ST DECEMBER, 1951

	£	£
Capital	8,150	
Land and Buildings	4,000	
Furniture and Fittings	600	
Motor Lorries	1,000	
Discount received	100	
Salaries	400	
Rent and Rates	200	
Postage	10	
Insurance against fire		40
Purchases	4,000	
Sales		3,000
Returns Inward	100	
Returns Outward	200	
Cash at Bank		1,000
Cash in Hand	100	
	18,860	4,040

(*R.S.A.*)

8. How would each of the following affect (*a*) the net profit of a business for the year 1951, and (*b*) the assets as given in the firm's balance sheet dated 31st December, 1951—

(i) Over-valuation of stock at 31st December, 1951.

(ii) An amount debited to a nominal account instead of a real account.

(iii) An amount credited to a debtor instead of to the account of a creditor.

9. S. Walden carries on business as a builders' merchant. On 1st January, 1951, his position was as follows—

Cash in Hand, £20 9s. 4d.; Cash at Bank, £135 17s. 6d.; Stock, £1,400; Furniture and Fittings, £240; Lorry, £200; Debtor: H. Hastings, £170 14s. 8d.; Creditor: Home Supplies, Ltd., £167 1s. 6d.

Open by journal entry the accounts necessary to record the above position in S. Walden's books, and post thereto, using the proper subsidiary books, the following transactions—

1951

Jan. 1. Cash sales £18 15s. 6d. Paid to bank £20.
Purchases on credit from Home Supplies, Ltd., five toilet basins at £1 9s. 6d. each, 60 yards of asbestos gutters at 3s. 1d. per yard—both items subject to 30 per cent trade discount.

Jan. 3. Received and banked a cheque from H. Hastings for £146 5s. Discount allowed £3 15s.
4. Sold on credit to H. Hastings, two domestic boilers at £7 5s. each, and two toilet basins at £1 15s. 3d. each, the latter being subject to a trade discount of 10 per cent.
Returned to Home Supplies, Ltd., one defective basin which had been purchased on 1st January.
5. Purchased from Home Supplies, Ltd., on credit, five dozen door locks at 42s. per dozen. Paid this company by cheque £97 10s. and was allowed £2 10s. discount.
6. Bought and paid for by cheque £10 2s. 6d. a new office chair. Obtained another lorry by exchanging the old one at the book value and paying a cheque for £75.
7. Paid by cheque rent £40 19s. Paid, in cash, wages £4 10s. Purchased for cash, petrol and oil £6 2s. 6d.

Balance the ledger accounts and cash book, bring down the balances and extract a trial balance as on 7th January, 1951. (No trading account, profit and loss account or balance sheet is to be prepared.)

10. C. Compton is a cutler and silversmith. On 1st January, 1951, his financial position was—

Sundry creditors: H. Bishop, £50, P. Spence, £75; Debtor: F. Stevens, £68; Shop Furniture and Fittings, £215 10s.; Cash at Bank, £693 15s.; Cash in Shop, £34 18s.; Stock in Hand, £945 17s.

Open by journal entry the accounts necessary to record the above position in Compton's books and (using a three-column cash book) post thereto, through the proper subsidiary books, the following transactions—

1951

Jan. 3. Paid by cheque, the amount due to H. Bishop *less* 2½ per cent cash discount.
Sold on credit to F. Stevens, cutlery £23 and silverware £35, the whole invoice being subject to 10 per cent trade discount.
4. Banked cash sales £94 17s. 8d.
Bought from M. Semon & Co., a new carpet for the shop and paid them by cheque £102.
5. Debited P. Spence with £15 for goods returned to him as defective.
Paid out of shop cash: sundry office expenses £5 3s. 10d.; repairs to shop furniture £6 4s. 9d.; personal expenses £5.
6. Bought on credit: cutlery £52 10s. from H. Bishop and silverware £42 5s. from P. Spence. The latter invoice was subject to 10 per cent trade discount.
F. Stevens settled his account to date, *less* 2½ per cent cash discount, by cheque (banked).
7. Sold an old carpet from the shop for £25 cash (not banked).

Jan. 7. Paid wages £15 out of shop cash and paid into the bank £23 9s. 5d. of cash in shop.
Paid P. Spence £50 on account, by cheque.

Balance the cash book and ledger accounts, bring down the balances and extract a trial balance as on 7th January, 1951. (No trading account, profit and loss account or balance sheet is to be prepared.)

11. L. Dale carries on business as a retailer. On the 31st December, 1951, the following trial balance was extracted from his books—

	£	£
Capital, 1st January, 1951		7,500
Drawings	675	
Cash	26	
Bank	210	
Stock, 1st January, 1951	2,400	
Fixtures	343	
Premises	7,000	
Debtors and Creditors	1,001	2,155
Wages	1,296	
Rent		70
Carriage Outward	172	
Salaries	325	
Loan Interest	80	
Loan		2,000
Advertising	97	
General Expenses	308	
Bad Debts	206	
Discount	174	
Commission	276	
Purchases and Sales	17,139	20,200
Returns Inward and Outward	335	276
Carriage Inward	138	
	32,201	32,201

On 31st December, 1951, the value of stock in hand was estimated at £2,300. Two-thirds of the wages are to be charged to the trading account and one-third to the profit and loss account.

You are required to prepare trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as on that date. (*R.S.A.*)

12. Mr. Charles Cantuar, a grocer, gives you the following balance sheet, which he has drawn up, and asks you to correct it.

On checking his figures you find that they are correct, his net profit for the year ended 31st December, 1951, being correctly stated as £156. His stock figures were, according to his own valuations, £617 at 31st December, 1951, and £1,641 at 31st December, 1950.

BALANCE SHEET OF CHARLES CANTUAR
FOR THE YEAR ENDED 31ST DECEMBER, 1951

Liabilities	£	£	*Assets*	£	£
Charles Cantuar's Capital Account—			Furniture, Fixtures and Fittings, etc., as at 31st December, 1950 . . .	780	
Balance b/f at 31st December, 1950 . . .	1,000		Freehold Premises as at 31st December, 1950 . .	3,000	
Drawings added . .	512				3,780
Loan received from Eric Ebor	2,000		Sundry Debtors, at 31st December, 1951 . . .		3,437
		3,512	Cash in Hand . . .		147
Sundry Creditors at 31st December, 1951 . . .	4,600		Stock-in-trade at 31st December, 1950, as valued by Charles Cantuar . .		1,641
Bank Overdraft . . .	146				
		4,746			
Depreciation at 10% per annum	78				
Current Account (being Charles Cantuar's credit balance not drawn out of business at 31st December, 1950)	513				
		591			
Profit and Loss Account—					
Net profit for the year ended 31st December, 1951 .		156			
		9,005			9,005

You are required to correct the errors he has made, and to show the balance sheet drawn up in the proper order and form.

13. The books of A. Sleigh, confectioner, showed the following position on 1st January, 1951—

Cash in Hand, £40; Cash at Bank, £2,000; Debtors: Mrs. Johnson, £40; A. Elliott, £100; Stock, £400; Fixtures and Fittings, £1,000; Premises, £5,000; Creditors: L. Foster, £200.

Record the above position, enter the following transactions in the proper subsidiary books, and post to the ledger. Extract a trial balance, calculate A. Sleigh's stock at the week ended 6th January, 1951 (assuming he makes a gross profit on sales of 25 per cent), and prepare his final accounts for the week ending 6th January, 1951.

1951

Jan. 1. Bought on credit flour £600, sugar £40, and lard £30, from L. Foster, all subject to 33⅓ per cent trade discount.
Cash sales £200.

2. Paid L. Foster £190 by cheque in full settlement of his account.
Cash sales £180.

3. Returned the whole of the lard bought from L. Foster on 1st January, 1951; it was not fresh.
Cash sales £190.
Paid £400 into bank.

4. A. Elliott is in temporary financial difficulties and A. Sleigh lends him £200 by cheque.

Jan. 4. Mrs. Johnson pays amount owing by her, and is allowed 2½ per cent cash discount.
Cash sales £210.
5. Sold on credit to Conservative Club, confectionery valued at £150.
Conservative Club returned surplus confectionery valued at £40, as agreed.
Cash sales £200.
Bought new counter valued at £200 from Eyres on credit.
Sold old counter valued £40 to E. Stone on credit.
A. Sleigh drew £100 by cheque for his personal use.
Bought on credit, flour £200, lard £60, and sugar £40 from L. Foster, all subject to 33⅓ per cent trade discount.
6. Paid salaries £40 by cash.
Paid shop rent £10 by cheque.
Paid cash for cleaning £4, and advertising £2.
Cash sales £180.
Paid £400 cash into bank.

14. The following trial balance was extracted from the books of G. Britton on 31st December, 1951—

	Dr.	*Cr.*
	£	£
Capital (fixed), 1st January, 1951		3,000
Drawings during year	364	
Creditor (W. Miles and Co.)		428
Debtor (Lightwood Bros.)	878	
Stock, 1st January, 1951	1,234	
Investment in 3½% War Loan	400	
Plant and Machinery	960	
Purchases	3,702	
Sales		5,724
Carriage on Purchases	58	
Returns Inward	72	
Rent and Rates	208	
Travellers' Salaries	326	
Discounts on Sales	115	
Wages	849	
Interest on Investment		14
	9,166	9,166

You are required to—

(*a*) Open ledger accounts showing the above balances.

(*b*) Prepare trading and profit and loss accounts for the year ended 31st December, 1951, closing off the proper ledger accounts.

Note: (i) The stock on 31st December, 1951, was valued at £1,410.

(ii) Two-thirds of wages are to be charged to trading account and one-third to profit and loss account.

(*c*) Bring down the remaining balances of ledger accounts and prepare a balance sheet as on 31st December, 1951. (*R.S.A.*)

15. D. Williams started in business as a hardware dealer on 1st March, 1951. On that day he paid £2,500 into a business banking account as his capital.

Open the accounts required to record the above and post to the ledger, through the proper subsidiary books, the following transactions—

1951

March 2. Purchased and paid for by cheque—
Leasehold Premises . . £2,000
Furniture and Fittings . £350

3. Drew and cashed a cheque for £25 for use in the office.
Purchased on credit from F. Denton, kitchenware, china and glass for £525.

5. Paid from office cash £6 6s. for an advertisement and £15 for a desk.
Cash sales, which were paid into office cash, £75 8s. 6d.

6. Purchased on credit from P. Martin, 5½ dozen frying-pans at £4 per dozen and ½ gross of kettles at £18 per gross, the whole invoice being subject to 10 per cent trade discount.

7. Received a cheque for £28 for the sale of certain fittings, purchased on 2nd March, which were found to be unsuitable for the business. The cheque was banked.

8. Received credit notes as follows for purchase returns—
F. Denton, defective china, £25.
P. Martin, ½ dozen frying-pans at net invoice value. (Part of goods bought on 6th March.)
Paid £53 to bank from office cash.

9. Sold on credit to R. White, china £75, glass £62, and hardware £18. All subject to 10 per cent trade discount.

10. Cash sales (not banked), £62 5s. 3d.

12. Paid F. Denton the amount owing to him, by cheque, *less* 2½ per cent cash discount.
Paid P. Martin a cheque for £20 on account.

13. R. White paid his account, *less* 2½ per cent cash discount by cheque, which was banked.

14. Paid from office cash ground rent due this day, £15.
G. Morgan made a loan of £500 to the business; his cheque for this amount was paid into the bank account.

Balance the ledger accounts and cash book, bring down the balances and extract a trial balance as on 14th March, 1951. No trading account, profit and loss account or balance sheet is to be prepared.

CHAPTER XI

PROVISIONS AND ADJUSTMENTS

One of the most important results sought from a systematic and accurate record of transactions is the amount of profit the business has made. Even where it is obvious that a loss cannot be avoided, records are an essential aid in disclosing the causes of the loss and to indicate the necessary remedies.

Many progressive firms ascertain these figures from time to time during the trading period to enable them to watch the trend of affairs, but almost every firm ascertains its trading results at the end of each trading period, which usually covers one year.

These profit (or loss) figures are used as indexes of efficiency, and a comparison with the figures of previous periods will indicate whether or not the efficiency of the business is rising or falling. But in order to ensure that the records are comparable it is necessary to see that each item of expenditure receives uniformity of treatment throughout the series of final accounts under review.

Amounts Owing at End of Trading Period

Let it be assumed that the rent of a business premises is £520 per annum, payable quarterly in arrear, and that at the end of the financial year, which will be taken as 31st December, 1951, the quarter's rent then due had not been paid. It will be seen that if this liability be ignored, only three-quarters of a year's rent will be charged against revenue in the profit and loss account, and the following year will be burdened with an extra quarter's rent. In these circumstances, if the first trading period showed a net profit of £660 and the second trading period a net profit of £420, there would be an apparent marked decline in efficiency, whereas proper apportionment would result in an amendment of these profits to £530 and £550 respectively.

It will thus be seen that to render two net profit figures comparable as indexes of efficiency, the amounts owing at the

end of each trading period must be included in the expenses of that period when ascertaining net profit, i.e. when preparing the profit and loss account. In the example just given, the cash book would receive a credit entry "By Rent £130" as each quarter's rent was paid. Each of these cash book entries would be posted to the debit of the rent account in the ledger—

Dr. RENT *Cr.*

1951			£				
April 1	To Cash	C.	130				
July 1	Cash	C.	130				
Oct. 1	Cash	C.	130				

As the trial balance is usually completed before adjustments are made for amounts owing, it will show rent as a debit balance of only £390. Therefore an adjustment is made on the debit side of the profit and loss account, as follows—

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

	£		£				
To Rent	390						
Add Rent owing	130						
			520				

In this way, the profit and loss account is debited with one year's rent, but as £130 of it is still owing, it must appear as a liability in the 1951 balance sheet—

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities	£	£	*Assets*
Sundry Creditors			
Trade	2,000		
Rent	130		
		2,130	

In consequence of the above amendment, the rent account in the ledger will appear—

Dr. RENT *Cr.*

1951			£	1951			£
April 1	To Cash . .	C.	130	Dec. 31	By Profit and Loss Account .		520
July 1	Cash . .	C.	130				
Oct. 1	Cash . .	C.	130				
Dec. 31	Rent, 1952 .	c/d	130				
			520				520
				1952 Jan. 1	By Rent, 1951 .	b/d	130

If it is desired to make this adjustment before compiling the trial balance, a journal entry in the following form will meet the need—

JOURNAL

1951			£	£
Dec. 31	Rent, 1951 . . . . *Dr.*		130	
	To Rent, 1952			130
	Being amount outstanding at this date.			

In this case the trial balance would contain a debit balance for rent £520, and a credit balance in respect of rent owing £130 (a liability for inclusion in the balance sheet).

The treatment of amounts owing in the final accounts may be summarized as follows—

1. Where the trial balance is prepared before making the ledger adjustment, *two* entries are required in the final accounts—

(*a*) On the debit side of the trading or profit and loss account, add the amount owing to the amount already paid.

(*b*) Show the amount owing on the liabilities side of the balance sheet.

2. Where the adjustment has been made in the ledger before preparation of the trial balance, the amount transferred from rent account to profit and loss account will be complete, leaving only *one* entry to be dealt with, i.e. the inclusion of rent owing among the balance sheet liabilities.

It will be observed that in both cases the amount outstanding must appear as a liability in the balance sheet, and its appearance as an addition to the item in the profit and loss account will arise only when no adjustment has been made in the ledger account before preparation of the trial balance.

Amounts Paid in Advance of Trading Period

Rates are contributions levied upon the occupiers of property, and are for the provision of local services and amenities, such as roads, public cleansing, police, public lighting, and schools.

Usually, they are levied by the rating authority in respect of the twelve months ending 31st March in each year, and are payable in advance in two equal instalments. The first instalment covers the six months ending 30th September; the second instalment the six months ending 31st March in the following year.

Therefore, if the rate demands are paid promptly, each 31st December will find the ratepayer in the position of having paid rates for services to be provided during the ensuing three months. In other words, the current year will have discharged part of the following year's rate liability.

For example, assume that a trader commences business in new premises on 1st January, 1951, that his liability for rates is £200 per annum, and that he pays promptly.

The first rate demand he will receive will be in respect of the period 1st January to 31st March, 1951, and this amount (£50) will be due very soon after he commences business.

The next demand for rates (£100) will be for the six months from 1st April to 30th September, 1951.

As both the above payments relate to the period in which they are made, no difficulty arises.

Later in the year a demand will be made for the rates (£100) due in respect of the six months from 1st October, 1951 to 31st March, 1952.

Each amount as it is paid will be entered in the cash book "By Rates," and the entries posted to the debit side of Rates account in the ledger, which is shown below.

Dr. RATES *Cr.*

1951			£				£
Feb. 1	To Cash . .	C.	50				
Apr. 1	Cash . .	C.	100				
Oct. 1	Cash . .	C.	100				

From this it will be seen that entries for rates in the 1951 ledger account total £250, but as the last entry of £100

covers the last three months in 1951 and the first three months in 1952, an adjustment will be necessary.

If no adjusting journal entry has been made before the preparation of the trial balance, it will be necessary to effect the adjustment in the profit and loss account and in the balance sheet, as shown below.

PROFIT AND LOSS ACCOUNT
Dr. FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

	£	£			£
To Rates . .	250				
Less Paid in advance . .	50				
		200			

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities		*Assets*	£
		Rates prepaid	50

As a result of this, the profit and loss account will bear the correct amount of rates for the year (£200), and the balance sheet will show as an asset the value of the services (£50) still to be performed. As the possibility of this asset being realized in cash is unlikely, except as part of the sum received on a sale of the business, it will now be understood why such an item was referred to earlier as a "fictitious asset" whose proper place in the balance sheet is at the bottom of the list of assets.

Again it may happen that the adjustment has to be made before compilation of the trial balance, in which case the following journal entry would be used—

JOURNAL

1951			£	£
Dec. 31	Rates, 1952	*Dr.*	50	
	To Rates, 1951			50
	Being amount of rates prepaid.			

If this were done, the rates account in the ledger would appear as shown on p. 134.

Dr. RATES *Cr.*

1951			£	1951			£
Feb. 1	To Cash	C.	50	Dec. 31	By Rates, 1952	c/d	50
Apr.	Cash	C.	100	31	Profit and Loss Account		200
Oct.	Cash	C.	100				
			250				250
1952							
Jan. 1	To Rates, 1951	b/d	50				

In compiling the final accounts, £200 would be transferred to the profit and loss account, and £50 would appear in the balance sheet as an asset.

In 1952, the debit of £50 in the rates account will be treated as part of the expenditure for that year.

Of course, rates usually vary from year to year, but this will not affect the principle of apportionment described.

As another example of prepayment, assume that the trader took out a policy of fire insurance on 1st April, 1951, and paid the premium for a year, amounting to £100.

Obviously, the whole of this amount should not be charged to 1951, as by so doing 1952 would benefit to the extent of three months' cover against loss by fire. The amount chargeable against 1951 would be £75, leaving £25 to be charged against the following year.

Assuming the trial balance was prepared before making the necessary adjustment, the entries in the insurance account, profit and loss account and balance sheet would appear as shown below.

Dr. INSURANCE *Cr.*

1951			£			
Apr. 1	To Cash	C.	100			

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951

Dr. *Cr.*

	£	£			
To Insurance	100				
Less Paid in advance	25				
		75			

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities		*Assets*	£
		Insurance prepaid	25

If a journal entry were made to effect the adjustment before preparation of the trial balance, it would be in the following form—

JOURNAL

			£	£
1951 Dec. 31	Insurance, 1952	*Dr.*	25	
	To Insurance, 1951 . . .			25
	Being amount of insurance prepaid.			

The insurance account after posting this journal entry, together with the entries in the profit and loss account and balance sheet are as follows—

Dr. INSURANCE *Cr.*

			£				£
1951 Apr. 1	To Cash . .	C.	100	1951 Dec. 31	By Insurance, 1952 .	c/d	25
				31	Profit and Loss Account. .		75
			100				100
1952 Jan. 1	To Balance . .	b/d	25				

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

			£				
	To Insurance . .		75				

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities		*Assets*	£
		Insurance prepaid . . .	25

The treatment of amounts paid in advance is now summarized—

1. Where the trial balance is prepared before making the ledger adjustment, *two* entries are required in the final accounts—

(*a*) On the debit side of the trading or profit and loss account, deduct from the amount actually paid the portion paid in advance.

(*b*) Show the amount paid in advance on the assets side of the balance sheet.

2. Where the adjustment has been made in the ledger before preparing the trial balance, the amount of rates for transfer to profit and loss account will be complete, leaving *one* entry only for disposal in the final accounts. This entry will show the amount prepaid as an asset in the balance sheet.

Thus in both cases the amount paid in advance will appear as an asset in the balance sheet, and its appearance as a deduction in the profit and loss account will occur only when no adjustment has been made in the ledger account before compilation of the trial balance.

It is one of the principles of good accounting that all expenses incurred in or appropriate to a period should be charged against the final accounts of that period alone.

In addition to the treatment of amounts paid in advance and amounts owing, adjustments in other directions are just as necessary. These include provisions for bad debts, for discount on debtors and creditors, for depreciation of assets, and for machinery repairs.

Provision for Bad Debts

It is the unfortunate experience of most traders not to be paid for some of the goods they sell on credit. These undischarged debts are known as "Bad Debts."

Assume that the amounts owed to a trader at the end of the year 1951 totalled £1,000. His experience has told him that no year has gone by without someone failing to pay, either through dishonesty or misfortune, and that it would be unlikely for 1951 to prove an exception. To ignore that probability when compiling his final accounts for that year might result in the year 1952 bearing the burden of bad debts attributable to the year 1951. To avoid this, a provision for bad debts would be made, the generally adopted estimate being 5 per cent of the debts owing. The necessary journal entry would be—

JOURNAL

			£	£
1951				
Dec. 31	Profit and Loss Account . .	*Dr.*	50	
	To Bad Debts Provision . . .			50
	Being provision for bad debts.			

The posting of this journal entry will cause the profit and loss account to be debited "To Bad Debts Provision £50." To accommodate the corresponding credit entry a new ledger account "Bad Debts Provision" will need to be opened. The entry will be "By Profit and Loss Account £50." This credit balance will appear in the balance sheet, not on the liabilities side, but as a deduction from sundry debtors. This is how the entries would be set out—

Dr. BAD DEBTS PROVISION *Cr.*

		£			£
			1951 Dec. 31	By Profit and Loss Account . .	50

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

		£			£
1951 Dec. 31	To Bad Debts Provision . .	50			

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities	£	*Assets*	£	£
		Sundry Debtors . .	1,000	
		Less Bad Debts Provision .	50	
				950

Usually, an account for bad debts provision will be found to exist already as the result of provisions made in the past. In such a case the account will record the provision last made. Assume this amount to be £700 at 1st January, 1951, the sundry debtors to be £20,000 on 31st December following, and that it is desired to increase the provision to 5 per cent of sundry debtors.

The amount of the new provision would be £1,000, but as provision to the extent of £700 has already been made, only the supplementary £300 would have to be charged against profits for 1951. The effect on the ledger account, profit and loss account and balance sheet would be—

Dr. BAD DEBTS PROVISION *Cr.*

		£			£
			1951 Jan. 1	By Balance . .	700
			Dec. 31	Profit and Loss Account .	300

PROFIT AND LOSS ACCOUNT
FOR YEAR ENDED 31ST DECEMBER, 1951

Dr.		£			£
1951 Dec. 31	To Bad Debts Provision . .	300			

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities		*Assets*	£	£
		Sundry Debtors . .	20,000	
		Less Bad Debts Provision	1,000	19,000

By debiting the profit and loss account with bad debts provision, the net profit is obviously reduced, which means a reduced reward to the proprietor of the business. This would be justifiable if it were known that bad debts would arise equal to the amount of the provision. It may transpire that the provision was in excess of the bad debts suffered, but until this is known the provision must be fully admitted as a liability.

Bad Debts Actually Incurred during Period of Transaction

To provide an example, assume that a trader sold on credit goods valued at £40 to his customer, J. Smith, on 1st July, 1951; and that the customer was declared bankrupt, paying his creditors a dividend of 10s. in the £ on 1st October, 1951. The cash book would of course be debited to show receipt of the amount (referred to as a "composition"), the entry being posted to the credit of J. Smith's account in the usual manner. The other entries would be—

JOURNAL

			£	£
1951 Oct. 1	Bad Debts . . . . . *Dr.*		20	
	To J. Smith			20
	Being amount of bad debts incurred in debtor's bankruptcy.			

LEDGER

Dr. J. SMITH *Cr.*

1951			£	1951			£
July 1	To Goods . .	S.	40	Oct. 1	By Cash . .	C.	20
					Bad Debts .	J.	20
			40				40

Dr. BAD DEBTS *Cr.*

1951			£	1951		£
Oct. 1	To J. Smith . .	J.	20	Dec. 31	By Profit and Loss Account .	20

Bad Debts Recovered

It is not unknown for a person who has been made bankrupt, and whose debts have been written off, to make payment when he has been able to acquire sufficient funds. Such a payment would be debited in the recipient's cash book as "To Bad Debt Recovered" and credited in Bad Debts account "By Cash." It is advisable to include in brackets the name of the debtor against these entries.

Bad Debt Set off against Provision

It has been pointed out that the purpose of creating a bad debts provision is to prevent bad debts of one period being charged against a future period.

If the trader had sold goods on credit during 1951 to another customer, A. Brown, who had died on 1st October, 1952, owing the trader a balance of £100, the resulting loss would be chargeable to 1951, and should not therefore be debited in the profit and loss account for the year ending 31st December, 1952. These entries would give the right effect—

JOURNAL

1952			£	£
Oct. 1	Bad Debts Provision . . . . *Dr.*		100	
	To A. Brown			100
	Being amount written off as irrecoverable.			

LEDGER

Dr.	A. Brown						*Cr.*
1952			£	1952			£
Jan. 1	To Balance . .	b/d	100	Oct. 1	By Bad Debts Provision . .	J.	100

Dr.	Bad Debts Provision						*Cr.*
1952			£	1952			£
Oct. 1	To A. Brown . .	J.	100	Jan. 1	By Balance (say) .	b/f	1,000

Provision for Discount on Debtors

At the end of a trading year some of the amounts owed to a concern will be paid in the new period while still subject to cash discount. The loss represented by these discount deductions should of course be against the period just ended.

For example, suppose that a firm's debtors at 31st December, 1951, totalled £4,000, that the estimate for bad debts is 5 per cent, and that provision for discount on debtors is to be $2\frac{1}{2}$ per cent.

First of all, it will be appreciated that the amount provided for bad debts would not qualify for discount, and would therefore be deducted from the amount of sundry debtors before calculation of the discount provision.

The provision for bad debts would amount to £200, leaving £3,800 on which the $2\frac{1}{2}$ per cent provision for discount on debtors would be calculated; this would amount to £95.

The journal entry to cover both provisions would be—

JOURNAL

			£	£
1951				
Dec. 31	Profit and Loss Account . . *Dr.*		295	
	To Bad Debts Provision . .			200
	Discount on Debtors Provision .			95
	Being 5 per cent provision for Bad Debts and $2\frac{1}{2}$ per cent provision for Discount on Debtors.			

The posting of this journal entry would be reflected as follows—

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951

Dr.							*Cr.*
1951		£					£
Dec. 31	To Bad Debts Provision . .	200					
	Discount on Debtors Provision .	95					

BAD DEBTS PROVISION

Dr.							*Cr.*
		£	1951				£
			Dec. 31	By Profit and Loss Account .	J.		200

DISCOUNT ON DEBTORS PROVISION

Dr.							*Cr.*
		£	1951				£
			Dec. 31	By Profit and Loss Account .	J.		95

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities	£	*Assets*	£	£
		Sundry Debtors . .		4,000
		Less—		
		Bad Debts Provision .	200	
		Provision for Discount	95	
			— 295	
				3,705

This provision for discount is also an estimate, and it is possible that the whole amount will not be claimed, but the provision will nevertheless constitute a liability in the meantime.

Provision for Discount on Creditors

Some of the amounts due to sundry creditors at the end of the year will be paid in time to earn cash discount, which of course will be a gain accruing to the period in which the liabilities were incurred.

Assume that £2,000 is owing to creditors at 31st December, 1951, and that it is proposed to create a provision for discount on creditors of 2½ per cent. The procedure would be—

JOURNAL

			£	£
1951 Dec. 31	Discount on Creditors Provision . *Dr.*		50	
	To Profit and Loss Account . .			50
	Being provision of 2½ per cent for Discount on Creditors.			

Dr. DISCOUNT ON CREDITORS PROVISION *Cr.*

1951			£	1951			£
Dec. 31	To Profit and Loss Account .	J.	50				

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

				1951			£
				Dec. 31	By Discount on Creditors Provision . .	J.	50

BALANCE SHEET AS AT 31ST DECEMBER, 1951

Liabilities	£	£	*Assets*
Sundry Creditors . .	2,000		
Less Provision for Discount	50		
		1,950	

From this it will be gathered that this provision is treated as an asset which has not yet been realized. The net profit has been increased as the result of this provision, but will suffer an abatement later coinciding with the amount not realized as discount.

Provision for Depreciation

It is inevitable that such things as plant and machinery should diminish in value as the result of wear and tear. This loss in value is referred to as depreciation, and represents the cost of using the equipment for purposes of production. Although it is not so apparent as rates or other expenses which are paid by drawing a cheque, it is no less real, and must be included in the expenses of every trading period.

Estimating the amount of depreciation to be charged requires technical knowledge, and must take into account the possibility of the equipment becoming out-of-date before the end of its estimated effective life; this possibility is termed *obsolescence.*

This problem of obsolescence is very important, for although a machine may be capable of further production, it may be more economical to have it replaced by one of the latest type.

The two methods most generally used for writing off depreciation are the Fixed Instalment method and the Reducing Instalment method.

Fixed Instalment Method. In this arrangement, equal amounts are written off annually over the estimated life of the plant. It tends to become complicated when additions of new plant necessitate revision of the instalment.

Reducing Instalment Method. In this system a fixed percentage is written off each annual balance. As the balance diminishes, so also does the amount of depreciation written off. The percentage calls for careful calculation, and the unavoidability of a residue must not be lost sight of.

This system has the advantage of being easily workable, as additions to plant need not involve fresh computations. Another advantage is that the depreciation charges become progressively lighter and offset the tendency for repair expenses to increase.

Suppose a manufacturer bought a machine for £4,000 on 1st January, 1952, and that in order to bring the book value of the machine down to its scrap value at the end of its useful life it was necessary to write off 10 per cent per annum for depreciation (including obsolescence). The entries would be—

JOURNAL

			£	£
1952 Dec. 31	Depreciation . . . . *Dr.*		400	
	To Plant and Machinery . .			400
	Being 10 per cent for depreciation written off for one year.			

Dr. DEPRECIATION *Cr.*

			£				£
1952 Dec. 31	To Plant and Machinery . .	J.	400				

Dr. PLANT AND MACHINERY *Cr.*

1952			£	1952			£
Jan. 1	To Plant and Machinery . .	J.	4,000	Dec. 31	By Depreciation .	J.	400
					Balance . .	c/d	3,600
			4,000				4,000
1953							
Jan. 1	To Balance . .	b/d	3,600				

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1952 *Cr.*

1952			£				£
Dec. 31	To Depreciation .		400				

BALANCE SHEET AS AT 31ST DECEMBER, 1952

Liabilities	£	*Assets*	£	£
		Plant and Machinery . .	4,000	
		Less Depreciation . .	400	
				3,600

The balance of plant and machinery account now appears as £3,600.

If the fixed instalment method were used, the amount written off in each succeeding year would be £400, and the plant would be completely written off in ten years.

If, however, the reducing instalment method were followed, the amount of depreciation for the second year would be 10 per cent of £3,600, which is £360. This would reduce the the book value of the asset to £3,240, which would in turn be depreciated by £324.

It is usual to show the initial value of the asset in the balance sheet, with the accrued depreciation as a deduction.

The essential reason for charging depreciation is to ensure that reduction in the value of the asset by wear and tear is charged as an expense; if this were not done, profits would benefit at the expense of capital.

While charging depreciation against profits it is prudent to earmark or invest funds of an equivalent amount. The mere writing down of the asset does not thereby ensure the necessary funds for its replacement. The arrangements are related but separate.

Example of Final Accounts with Adjustments

Ernest Williams carries on business as a furniture dealer, and the following trial balance was extracted from his books on 31st December, 1951—

	Dr. £	*Cr.* £
Capital		43,600
Drawings	500	
Freehold Premises	15,000	
Fixtures and Fittings	4,000	
Delivery Vans	5,000	
Debtors and Creditors	8,000	6,000
Salaries	2,000	
Wages	10,000	
Wages owing		500
Rent	400	
Rates	200	
Rates prepaid	100	
Advertising	400	
Repairs to Delivery Vans	100	
Petrol	400	
Bad Debts Provision, 1.1.51		300
Bad Debts	100	
Depreciation of Freehold Premises	1,000	
Carriage Outward	400	
Carriage Inward	500	
Stock, 1.1.51	10,000	
Purchases and Sales	50,000	61,000
Returns Inward and Outward	1,000	2,000
Cash at Bank	4,000	
Cash in Hand	300	
	113,400	113,400

It is required to prepare trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as at that date, after making adjustments for the following—

1. Salaries owing £200.
2. Rent owing £400.
3. Advertising prepaid £100.
4. The provision for bad debts is to be made up to 5 per cent on sundry debtors.
5. Reserve 2½ per cent for discount on debtors and creditors.
6. Depreciation to be provided as follows: (*a*) 5 per cent on fixtures and fittings, (*b*) 20 per cent on delivery vans.

7. Calculate the stock on 31st December, 1951, assuming that an overall gross profit of $33\frac{1}{3}$ per cent is made on net sales.

This is the calculation of Ernest Williams's stock at 31st December, 1951—

	£	£
Stock at 1st January, 1951		10,000
Purchases	£50,000	
Less Returns Outward	2,000	
		48,000
		58,000
Deduct—		
Sales	£61,000	
Less Returns Inward	1,000	
	60,000	
Less $33\frac{1}{3}$ per cent gross profit on sales	20,000	
		40,000
		18,000

(In practice, Ernest Williams would confirm this figure by an actual stocktaking, as 31st December is the end of his trading period.)

The final accounts are shown below.

It will be noted that the amount appearing in the trial balance in respect of Freehold Premises is £15,000, which is the amount remaining after depreciation to the extent of £1,000 has been written off. To comply with practical

TRADING ACCOUNT

Dr. FOR YEAR ENDED 31ST DECEMBER, 1951 *Cr.*

1951		£	£	1951		£	£
Jan. 1	To Stock		10,000	Dec. 31	By Sales	61,000	
		£			*Less* Returns	1,000	
Dec. 31	Purchases	50,000					60,000
	Less Returns	2,000			Stock		18,000
			48,000				
	Wages		10,000				
	Repairs to Delivery Vans		100				
	Carriage Inward		500				
	Petrol		400				
	Gross Profit		9,000				
			78,000				78,000

Profit and Loss Account for Year ended 31st December, 1951

Dr. *Cr.*

	£	£		£
To Salaries	2,000		By Gross Profit	9,000
Add Salaries owing	200		Provision for Discount on Creditors	150
		2,200		
Rent	400			
Add Rent owing	400			
		800		
Rates		200		
Advertising	400			
Less prepaid	100			
		300		
Bad Debts Provision	400			
Less Amount already provided	300			
		100		
Bad Debts		100		
Provision for Discount on Debtors		190		
Carriage Outward		400		
Depreciation—	£			
Freehold Premises	1,000			
Fixtures and Fittings	200			
Delivery Vans	1,000			
		2,200		
Net Profit		2,660		
		9,150		9,150

Balance Sheet as at 31st December, 1951

Liabilities	£	£	*Assets*	£	£
Creditors—	£		Freehold Premises	16,000	
Trade	6,000		*Less* Depreciation	1,000	
Less Discount Provision	150				15,000
		5,850	Fixtures and Fittings	4,000	
Wages		500	*Less* Depreciation	200	
Rent		400			3,800
Salaries		200	Delivery Vans	5,000	
		6,950	*Less* Depreciation	1,000	
					4,000
Capital at 1.1.51	43,600		Stock		18,000
Less Drawings	500		Sundry Debtors	8,000	
		43,100	*Less* Provisions	£	
Add Net Profit		2,660	Bad Debts	400	
		45,760	Discount	190	
					590
					7,410
			Cash at Bank		4,000
			Cash in Hand		300
			Expenses Prepaid—		
			Rates	100	
			Advertising	100	
					200
		52,710			52,710

requirements, the value of the asset at the beginning of the period is shown in the balance sheet, together with the amount deducted as depreciation, the net figure only being extended.

EXERCISE XI

1. From the following trial balance of George Woodham, retail furniture dealer, prepare trading and profit and loss accounts for the year ending 31st December, 1951, and a balance sheet as on that date.

TRIAL BALANCE OF GEORGE WOODHAM
AS AT 31ST DECEMBER, 1951

1951		*Dr.* £	*Cr.* £
Dec. 31.	Capital		8,000
	Drawings	500	
	Premises	4,000	
	Fixtures	400	
	Delivery Vans	1,000	
	Debtors and Creditors	2,000	4,000
	Discounts	100	200
	Rent	100	
	Rent owing		40
	Salaries	400	
	Wages	2,000	
	Rates	75	
	Rates prepaid	25	
	Stock, 1st January, 1951	4,000	
	Purchases and Sales	6,000	9,660
	Returns Inward and Outward	200	300
	Cash at Bank	1,000	
	Cash in Hand	400	
		22,200	22,200

Adjustments are necessary in respect of the following—

(*a*) Salaries owing £100, wages owing £400.
(*b*) Customer returned £200 goods which were unsatisfactory.
(*c*) £10 cash stolen from till.
(*d*) Depreciation—Premises 2 per cent, Fixtures 5 per cent, Delivery Vans 10 per cent.
(*e*) Stock 31st December, 1951, £5,000.

2. The following balance sheet is not properly drawn up, although the figures given for each item shown are quite correct.

BALANCE SHEET FOR YEAR ENDED 31ST DECEMBER, 1951

	£	£		£
Net Profit for the Year		750	Plant	1,000
Sundry Debtors		94	Sundry Creditors	120
Capital Account—	£		Freehold Premises	1,200
Balance, 1st January, 1951	1,500		Cash in Hand	24
Add Loan received from M. Fogg	500		Drawings	450
		2,000	Stock, 31st December, 1950	188
Stock, 31st December, 1951		120	Cash at Bank	82
Depreciation of Plant, 10%		100		
		3,064		3,064

You are required to submit the balance sheet as it should appear.

3. V. Goodfellow is a hotel-keeper. The following trial balance was extracted from his books on the 31st December, 1951. The stock of provisions, wines, spirits, linen, china and cutlery was valued at that date at £3,570.

Prepare trading and profit and loss accounts for the year ended 31st December, 1951, with a balance sheet as on that date.

	£	£
Stocks on Hand, 1st January, 1951—		
Provisions, wines, spirits, linen, china and cutlery	4,052	
Receipts from visitors		17,314
Fuel and Light	456	
Rent and Rates	590	
Advertising	175	
Purchases of provisions, wines and spirits	5,833	
Purchases of linen, china and cutlery	674	
Wages	3,210	
Carriage on Purchases	129	
Office Salaries and General Expenses	1,877	
Interest paid on Loan	200	
Loan: P. Henry		4,000
Repairs to Furniture and Premises	640	
Sundry Debtors and Creditors	204	823
Leasehold Premises	7,000	
Furniture and Fittings	3,600	
Bad Debts written off	216	
Capital Account, 1st January, 1951		9,638
Drawings during the year	2,000	
Cash at Bank	828	
Cash in Hand	91	
	31,775	31,775

4. From the following balances taken from the books of Rowland Salt, on the 31st December, 1951, compile a trial balance and prepare trading and profit and loss accounts for the year ending 31st December, 1951, and a balance sheet as on that date.

Drawings, £400; Premises, £10,000; Plant and Machinery, £20,000; Fixtures and Fittings, £1,000; Debtors, £10,000; Creditors, £8,000; Discount Received, £100; Wages, £2,000: Wages owing, £400; Salaries, £1,000; Salaries owing, £200; Rent, £600; Rates, £400; Advertising, £600; Advertising prepaid, £100; Bad Debts, £400; Bad Debts Reserve, £200; Carriage Inward, £200; Carriage Outward, £300; Stock 1st January, 1951, £8,000; Purchases, £10,000; Sales, £13,000; Returns Inward, £1,000; Returns Outward, £2,000; Cash at Bank, £4,000; Cash in Hand, £600.

The difference between the two sides will give the amount of capital.

In preparing the final accounts the following should be taken into account—

(*a*) Rent owing—£200.

(*b*) Make bad debts provision equal to 5 per cent on sundry debtors.

(*c*) Rates prepaid, £100.

(*d*) Provide 2½ per cent on debtors and creditors for discount.

(*e*) Assuming there is a gross profit of 25 per cent on net sales, calculate stock on the 31st December, 1951.

5. On 31st December, 1951, the following balances were extracted from the books of Charles Kilhan—

	Dr.			*Cr.*		
	£	*s.*	*d.*	£	*s.*	*d.*
Cash Purchases	98	4	–			
Credit Purchases	484	8	–			
Stock, 1st January, 1951	378	10	–			
Sales				1,841	16	–
Sales Returns	36	–	–			
R. Jones, Debtor	98	6	–			
W. Robinson, Debtor	41	14	–			
F. White, Creditor				271	–	–
G. Garraway, Creditor				103	10	–
Cash at Lloyds Bank	364	10	–			
Discount and Allowances				21	4	–
Wages, Salaries and General Expenses	681	–	–			
Travellers' Salaries and Commission	562	8	–			
Fire, Burglary and National Health Insurance	74	10	–			
Furniture and Fittings	878	–	–			
Capital Account				1,460	–	–
	3,697	10	–	3,697	10	–

The Stock on Hand was valued on 31st December, 1951, at £294. One-third of the Wages, Salaries and General Expenses is to be charged to profit and loss account and the balance to trading account.

You are required to prepare from the above particulars trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as on that date. (*R.S.A.*)

6. From the following list of balances you are required to prepare—(*a*) A trial balance, (*b*) trading and profit and loss accounts for the year ended 31st March, 1951, and (*c*) a balance sheet as on that date.

	£
Capital	2,400
Cash in Hand	30
Bank Overdraft	150
Sales	3,500
Purchases	1,850
Carriage Outwards	50
Salaries (Office)	500
Wages (Trading Account)	750
Returns Outward	200
Rent and Expenses	275
Stock, 1st April, 1950	680
Sundry Debtors	420
Sundry Creditors	87
Plant	1,782

The stock as on 31st March, 1951, was valued at £780. (*R.S.A.*)

7. H. Smith is a boot repairer. Prepare his trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet, from the following trial balance—

31st December, 1951

	Dr. £	*Cr.* £
Stock, 31st December, 1950	1,540	
Rent and Rates for the year	216	
Rates paid in advance at 31st December, 1951	59	
Repairs executed during year		5,336
Packing Material	154	
Sundry Creditors		525
Sundry Debtors	595	
Plant and Tools	1,000	
Cash at Bank	458	
Capital Account, 31st December, 1950		3,300
Carried forward	4,022	9,161

	Dr. £	*Cr.* £
Brought forward	4,022	9,161
Current Account, Balance of 1950 profit undrawn		177
Bad Debts recovered		28
Office Salaries	208	
Heating and Lighting	104	
Electric Power	230	
Returns Outward		76
Wages	2,356	
Drawings during year	450	
Purchases of leather, etc.	2,072	
	9,442	9,442

The stock on 31st December, 1951, was valued at £1,760. (*R.S.A.*)

8. You are required to prepare trading and profit and loss accounts for the year ended 30th June, 1951, with a balance sheet as on that date, from the following trial balance extracted on 30th June, 1951, from the books of H. Spencer, a wholesale and retail merchant.

	£	£
Capital Account		6,000
Stock, 1st July, 1950	3,240	
Cash Sales		2,400
Credit Sales		10,670
Returns Inward	410	
Advertising	617	
Salaries and Wages	4,376	
Purchases	5,223	
Travellers' Commission	950	
Office Expenses	729	
Bank Overdraft		383
Sundry Debtors and Creditors—		
F. Shaw	239	
M. Wills		629
N. Rose		736
P. Baker	1,871	
Drawings	898	
Fixtures and Fittings	390	
Freehold Property	1,800	
Cash in Hand	75	
	20,818	20,818

(*a*) Three-fourths of salaries and wages are to be charged to the trading account.

(*b*) The stock on 30th June, 1951, was valued at £4,125. (*R.S.A.*)

9. Prepare a trial balance from the following list of balances (extracted on 31st March, 1951), and insert as Capital the sum which you find is required to balance the two sides—

	£
Cash in Hand	22
Sundry Creditors	1,450
Loan to employee	50
Freehold Buildings	1,500
Bank Overdraft	544
Stock on Hand	1,786
Sundry Debtors	2,484
Rates paid in advance	58
Rent payable	36

(*R.S.A.*)

10. (*a*) The rent account of G. Gibson showed £60 paid for the quarter year to 31st March, 1951. A. Green, who shared Gibson's premises, agreed that one-half should be charged to his account. Show the journal entry required to effect this.

(*b*) Black & Co., Ltd., being unable to pay its debts, gave G. Gibson a motor car worth £50 on 1st April, 1951, in settlement of its account of £35. Show the journal entry required to record this in Gibson's books. (*R.S.A.*)

11. During the year ended 31st December, 1951, C. P. Kilham made the following bad debts—

A.B., £13 2s. 6d.; X.Y., £5 9s. 10d.; and R.Z., £12 18s. 4d.

Submit the entries Kilham should make when closing his books as on 31st December, 1951. (*R.S.A.*)

12. On 30th June, 1951, the following trial balance was extracted on 30th June, 1951, from the books of L. Pearce, a wholesale dealer. You are required to prepare trading and profit and loss accounts for the year ended 30th June, 1951, and a balance sheet on that date.

	Dr. £	*Cr.* £
Stock, 1st July, 1950	2,752	
Debtors and Creditors	2,948	1,372
Freehold Land and Buildings	1,850	
Purchases and Sales	8,333	10,297
Carriage on Purchases	171	
Bad Debts	122	
Repairs to Premises	75	
Returns Inward and Outward	247	208
Fixtures and Fittings	228	
Motor Vans	280	
Office Expenses	347	
Carried forward	17,353	11,877

			Dr.	Cr.
			£	£
Brought forward			17,353	11,877
Capital, 1st July, 1950				6,350
Bank Overdraft				514
Drawings			348	
Salaries and Commission			798	
Depreciation—				
Fixtures and Fittings	£12			
Motor Vans	70			
			82	
Carriage on Sales			113	
Cash in Hand			47	
			18,741	18,741

On 30th June, 1951, the stock of goods on hand was valued at £2,378. (*R.S.A.*)

13. A. Alston is a sole trader. Prepare his trading and profit and loss accounts for the year ended 31st December, 1951, with a balance sheet as at that date, from the following trial balance—

TRIAL BALANCE—31ST DECEMBER, 1951

	£	£
Capital Account (1st January, 1951)		12,000
Drawings during year	1,285	
Land and Buildings	10,000	
Goodwill	1,000	
Stock (1st January, 1951)	4,326	
Returns Inward	142	
Purchases and Sales	15,784	26,132
Motor Vans (*less* depreciation)	1,600	
Discount Allowed and Received	94	106
Debtors and Creditors	3,428	2,500
Rent received		520
Loan		1,500
Salaries	2,409	
Rates and Taxes	239	
Heating and Lighting	71	
Insurance	93	
Interest on Loan	60	
Depreciation on Motor Vans	160	
Wages	2,000	
Cash in Hand	67	
	42,758	42,758

The stock at 31st December, 1951, was valued at £1,120.

14. B. Adams is a wholesale and retail tobacconist. You are required, from the following trial balance at 31st December, 1951, to prepare separate trading accounts for his wholesale trade and his retail trade for the year to 31st December, 1951, a profit and loss account for the year, and a balance sheet as at 31st December, 1951. The values of stocks on hand at 31st December, 1951, were—In wholesale warehouse, £2,800; in retail shop, £173.

	Dr. £	*Cr.* £
Capital Account Balance, 1st January, 1951		4,931
Drawings during 1951	500	
Sales—Wholesale trade		50,180
Retail trade		7,800
Purchases—Wholesale trade	48,333	
Retail trade	6,827	
Purchase Returns (Wholesale trade)		105
Wages—Wholesale Warehouse trade	617	
Retail Shop	364	
Freehold Property	3,000	
Fixtures and Fittings	465	
Sundry Creditors		4,187
Sundry Debtors	3,824	
Bank Interest and Charges	45	
Office Salaries	555	
Office Expenses	126	
Advertising	115	
Stocks (1st January, 1951)—		
Wholesale Warehouse	3,210	
Retail Shop	240	
Rent of rooms sublet		185
Buildings Repairs	93	
Cash in Hand	33	
Bank Overdraft		959
	68,347	68,347

(*R.S.A.*)

15. The following errors were found in the books of C. Drew & Co., affecting the year ended 31st December, 1951—

(*a*) £25 sales to H. Carver had been posted to his account as £2 5s.

(*b*) A purchase of £350, plant and machinery, had been posted to purchases account.

(*c*) In the addition of the returns inwards book a total of £787 had been carried forward as £878.

(*d*) The sales journal had been over-added by £68 5s.

You are required to show—

(i) The adjusting journal entries necessary to correct these errors

(ii) The adjusted profit for the year (the profit before adjusting the errors being £3,553 17s. 1d.). (*R.S.A.*)

16. The abridged balance sheet below is that of a sole trader. You are required to redraft it as it would appear after the transactions given had been carried out—

BALANCE SHEET—A. TRADER—31ST DECEMBER, 1951

	£		£
Creditors	1,200	Cash	15
Capital Account	3,000	Debtors	385
		Stock	1,800
		Machinery	2,000
	4,200		4,200

(*a*) A. Trader was loaned £500, and he paid off £200 of his debts—no discount being allowed him. The loan was banked.

(*b*) He received £50 from his debtors, but allowed no discount.

(*c*) He purchased on credit £100 of stock.

(*d*) A. Trader sold for cash some of his machinery. Its book value was £200 but it fetched £150. (*R.S.A.*)

17. The books of Mrs. Grundy, confectioner, disclosed the following assets and liabilities on the 1st January, 1952—

Land and Buildings, £20,000; Fixtures and Fittings, £2,000; Plant and Machinery, £5,000; Delivery Vans, £1,000; Stock, £8,000; Debtors: F. White, £100; T. Williamson, £400; R. Jones, £200; Creditors: F. Rhodes, £300; K. Roberts, £300; Rent for December, 1951, £10; Cash in Hand, £100; Cash at Bank, £4,000.

You are required to open Mrs. Grundy's books, enter the following transactions through the proper subsidiary books, and post to the ledger.

1951

Jan. 1. F. White paid by cheque amount due from him *less* 2½ per cent cash discount.

2. Bought on credit from Woodheads, flour £100, sugar £200, tea £400, the whole being subject to a trade discount of 20 per cent.

3. Bought from Taylors (paid for by cheque) cakes £100, bread £50, jam £60, all subject to 20 per cent trade discount.

4. Bought from Taylors on credit flour £100, spices £200, all subject to 20 per cent trade discount.

5. Returned to Woodheads, as unfit for sale, the whole of the flour bought on the 2nd.

6. Cash sales £50.

Jan. 7. Bought postage stamps out of office cash £10.
8. Paid office cleaners out of office cash £20.
9. Sold on credit to T. Lawton cakes £40, jam £10, bread £20, the whole being subject to 10 per cent trade discount. (Post this item in error to the Creamery's account.)
10. T. Lawton returned the whole of the bread invoiced on the 9th January—not ordered.
11. Sold on credit to the Creamery, sugar £100, and jam £20, the whole being subject to 10 per cent trade discount.
12. Arranged for advertisement for three weeks in the *Derbyshire Times* at a cost of £21.
13. Paid *Derbyshire Times* by cheque for advertisement.
14. Sold on credit to S. Stockton, jam £10, subject to 10 per cent trade discount.
15. The Creamery returned jam of net value £8—wrong variety.
20 Cash sales £100.
24. Paid cash to bank £50.
25. Paid salaries £300 by cheque.
27. Paid delivery charges by cheque £20.
28. A customer returned with stale bread bought for £2. Returned cash to her.
29. Paid for stationery from office cash £5.
30. Correct error of posting on the 9th January.
31. Make an adjustment for one week's advertising paid in advance.
Make an adjustment for £4 postage stamps in stock.
Make an adjustment for one week's salaries owing £100.
Make a provision for one month's depreciation of Land and Buildings 5 per cent per annum, Furniture and Fittings 20 per cent per annum.

Prepare a trial balance on the 31st January, 1952, a trading account and profit and loss account for the month ending 31st January, 1952, and a balance sheet as on that date after making adjustments for the following—

(*a*) Value of stock, £6,000.

(*b*) Depreciate Plant and Machinery at the rate of 10 per cent per annum and Delivery Vans at the rate of 20 per cent per annum.

(*c*) Stationery in stock, £2.

(*d*) Amount owing for office cleaning, £60.

18. Justify the creation of a Bad Debts Provision account, and explain the appearance of a Bad Debts Provision account and a Bad Debts account in the same trial balance.

19. (*a*) Depreciation at 10 per cent is to be written off plant and machinery standing in the books at £3,285.

Give the journal entry required to effect this on 31st December, 1951.

(*b*) S. House, a builder, has a motor car which he uses partly for business purposes and partly for taking his family on holidays.

During the year ended 31st December, 1951, the whole cost of running the car has been charged to his business, and appears in the following accounts—

	£
Car running expenses account	124
Driver's wages account	156
	280

S. House agrees that the business should bear only three-fourths of this expenditure. Show by journal entry how you would make the desired adjustment. (*R.S.A.*)

20. Explain why it is necessary periodically to write off depreciation from assets of a wasting nature. (*R.S.A.*)

21. A book-keeper balances his books monthly, and if at any time his books fail to balance he enters the difference temporarily in a "Suspense Account." On 31st December, 1951, the books were properly balanced, but on 31st January, 1952, there was an excess debit of £11 9s. 9d., the suspense account therefore being credited with this amount. During February, the difference was found and accounted for as follows—

(*a*) Discount amounting to £1 5s. 3d. had been allowed to a customer and credited to his account, but no other entry had been made.

(*b*) Wages paid, amounting to £78 5s. 3d. had been posted to the wages account as £87 5s. 3d.

(*c*) A creditor's balance of £4 15s. had been entirely overlooked when taking out the list of balances on 31st January.

(*d*) The remainder of the difference was due to a mis-cast in the sales day book.

Set out in journal entry form the corrections necessary to adjust the several accounts affected. (*R.S.A.*)

22. Set out the journal entries necessary to deal with the following matters—

(*a*) The writing off as bad debts of £55 due from A., £19 7s. 6d. from B., and £27 15s. from C.

(*b*) The allocation of £1,000 to General Reserve.

(*c*) The transfer to Furniture and Fittings of £25, the cost of a typewriter originally posted to Office Expenses.

(*d*) The bringing into account of three months' interest accrued on a loan of £500 at 5 per cent per annum due from D.

(*e*) The loss arising on the sale for £37 of a machine, the book value of which is £55. (*R.S.A.*)

23. In 1950 a trader, X, wrote off as a bad debt £19 15s. 4d., the balance of an account due to him by Y.

In 1951 Y paid the debt in full. Show by means of journal entries how the recovery of this debt would be dealt with in closing X's books for 1951, on the assumption that—

(*a*) The cash received was posted to the credit of Y's account.

(*b*) The cash was posted to a nominal account. (*R.S.A.*)

24. The following errors have been made during 1951, in a set of books—

(*a*) The sales day book was undercast by £10 in April.

(*b*) A customer's personal account has been correctly credited with 15s. 3d. discount but no corresponding entry made in the discount column of the cash book.

(*c*) Discounts allowed for July, amounting to £7 4s. 9d. were posted to the credit, instead of the debit, of discount account.

(*d*) A debit balance on a customer's account was carried forward 10s. short.

(*e*) An old credit balance of £2 5s. standing on a customer's account was entirely overlooked when extracting the balances.

Draw up a statement showing the *effect* of each of these errors on the trial balance drawn up at the end of the year and state what "difference" the trial balance will show. (*R.S.A.*)

CHAPTER XII

OTHER ASPECTS OF THE BANK ACCOUNT

The bank columns in the cash book relate to the bank current account only, so that when money is placed on deposit a special Bank Deposit account must be opened in the ledger. This, of course, will be a *real* account.

Assume that on 1st July, 1952, out of the balance of £300 in current account the sum of £50 was transferred to deposit account, and that £25 was transferred from deposit to current account on 1st October following. The entries would be as shown on page 161.

Bank Reconciliation Statement

It rarely happens that the balance at the bank as shown by the cash book agrees with the amount shown in the bank statement or pass book. This disagreement may be due to several causes, among which are—

1. *Bank Charges.* It is usually not possible for the bank's customer to enter bank charges in his cash book until he has received the bank statement in which these charges appear as a debit. When these charges are known, the entry in the cash book will be "By Bank Charges," and Bank Charges account in the ledger will be correspondingly debited "To Cash," but in the meantime the two balances will disagree by the amount of the charges, the bank balance as shown by the banker being of course the smaller amount.

2. *Cheques drawn but not cleared.* When a cheque is drawn and sent to a creditor, the cash book will be credited, but the drawer's banker will only become aware of this cheque when it is presented a few days later by the payee's banker for collection of the amount. Consequently, although an entry will appear on the credit side of the cash book, a corresponding entry will not appear in the bank statement if it was dispatched before presentment of the cheque.

For example, a cheque for £50 was sent to T. Jones, who did not pay it into his bank account in time for the amount to

Dr. CASH BOOK *Cr.*

1952			*Discount* £	*Cash* £	*Bank* £	1952			*Discount* £	*Cash* £	*Bank* £
July 1	To Balance . .	b/f			300	July 1	By Deposit Account				50
Oct. 1	Deposit Account				25						

LEDGER

Dr. BANK DEPOSIT *Cr.*

1952			£	1952			£
July 1	To Cash	C.	50	Oct. 1	By Cash		25

be recorded in the statement sent out by the bank on whom the cheque was drawn.

The drawer's cash book would contain the entry "By T. Jones £50," but a like amount would not appear on the bank statement, the balance of which would in respect of this item exceed by £50 the balance shown by the cash book.

3. *Cheques paid in but not credited.* A cheque received and debited in the cash book may not appear on the bank statement for either of the following reasons—

(i) Delay in paying into the bank after entry in the cash book.

(ii) Payment into a branch other than that where the account is kept.

As a consequence, and assuming that no other difference existed, the cash book would show a larger balance than would appear on the bank statement.

All these causes for variation between the bank statement and the cash book may be present at the same time, in which case the difference between the two balances would be a composite figure not recognizable at once. The difference would be resolved in the form of a Bank Reconciliation Statement. It is important that this should be done, first of all because it is essential to reconcile the cash book and bank figures, and secondly because errors are occasionally revealed in the process.

EXAMPLE. On 31st December, 1951, the balance at bank as recorded by the cash book was £400, and the balance according to the bank statement was £590.

It was found that cheques paid to J. Green and F. Johnstone for £100 and £200 respectively had not been cleared, and that two cheques had not been credited, one from R. Salt for £50 and the other from E. Williams for £40. Bank charges were £20. A bank reconciliation statement as at 31st December, 1951 is required.

The method recommended is to take either the cash book or the bank statement balance, and add or subtract, as necessary, the figures just mentioned.

Assume that the cash book balance of £400 is used as a starting point. The cheques paid to J. Green and F. Johnstone would have been credited in the cash book when they were dispatched, but no entry would have appeared on the bank

statement as the cheques had not been cleared. Therefore, for purposes of comparison, £100 and £200 must be added to the cash book balance of £400, giving a total of £700.

The cheques received from R. Salt and E. Williams would have been debited in the cash book immediately on receipt, but as they had not been credited by the bank would not appear on the bank statement. Consequently, the amounts of £50 and £40 must be deducted from the cash book balance to bring it into line. This will reduce the above mentioned £700 to £610.

The £20 charges would have been debited in the bank statement but not in the cash book, as that book had been balanced before the statement was received. These charges, when deducted from £610 will leave £590, and the difference between the cash book and bank statement figures will have been explained. The bank charges, as soon as they are known, must of course be entered in the cash book.

The reconciliation statement may be set out in the following manner (in practice, it is usual to write this statement in red ink in the cash book as a compact note in the space left after ruling off for the month)—

BANK RECONCILIATION STATEMENT
AS AT 31ST DECEMBER, 1951

	£	£
Balance per cash book		400
Add Cheques drawn but not cleared—		
J. Green	100	
F. Johnstone	200	
	—	300
		700
Deduct Cheques paid in but not credited—		
R. Salt	50	
E. Williams	40	
Bank charges	20	
	—	110
Balance per bank statement		590

A specimen cash book and bank statement will now be given, so that the operation of agreement can be followed in detail.

First of all, it is necessary to mark with a tick corresponding items in the cash book and bank statement. This should be

done carefully, as an item ticked off in the cash book but not in the bank statement will result in some confusion.

When this has been done, amounts may remain unticked in both documents. These amounts will account for the difference between the two balances.

BANK STATEMENT OF M. REEVE AT 30TH SEPTEMBER, 1952

Date	Cheques, etc., Paid		Credits		Balance
	Description	Amount	Description	Amount	
1952		£		£	£
Sept. 1			Balance forward . .	100 ✓	100
4	T. Jones . . .	10 ✓			90
6			F. Smith . . .	14 ✓	104
7	R. Thompson . .	20 ✓			84
9			F. Mercer . . .	24 ✓	108
10	Charges . . .	1			107
18	L. Mason . . .	8 ✓			99
20	T. Jones . . .	8 ✓			91
22			F. Smith . . .	24 ✓	115
24	L. Mason . . .	10 ✓			105
25			F. Mercer . . .	20 ✓	125

CASH BOOK OF M. REEVE
(BANK COLUMNS ONLY)

Dr.					*Cr.*
1952		£			£
Sept. 1	To Balance . .	100 ✓	Sept. 2	By T. Jones . .	10 ✓
6	F. Smith . .	14 ✓	5	R. Thompson .	20 ✓
9	F. Mercer . .	24 ✓	15	L. Mason . .	8 ✓
22	F. Smith . .	24 ✓	18	T. Jones . .	8 ✓
25	F. Mercer . .	20 ✓	21	L. Mason . .	10 ✓
26	L. Morris . .	14	28	R. Thompson .	40
30	F. Mercer . .	36	29	T. Jones . .	10
			30	Balance c/d . .	126
		232			232
Oct. 1	To Balance b/d . .	126			

BANK RECONCILIATION STATEMENT
AT 30TH SEPTEMBER, 1952

	£	£
Balance per cash book		126
Add Cheques drawn but not cleared—		
R. Thompson	40	
T. Jones	10	
		50
		176
Deduct Cheques paid in but not credited—		
L. Morris	14	
F. Mercer	36	
Bank charges	1	
		51
Balance per bank statement		125

Dishonoured Cheques

It occasionally happens that a customer's cheque paid into the bank is returned marked "Refer to drawer," which means that the drawer's banker has refused to honour the cheque, the usual reason being lack of funds in the account.

When the cheque was received it would of course have been debited in the cash book and credited to the customer's account. Its dishonour would require a credit entry in the cash book, which would be debited to the customer's account and restore it to its original state of indebtedness. The bank statement will of course record the returned cheque as a debit.

Dishonoured Cheques and Cash Discount

If the customer whose cheque was dishonoured had been allowed cash discount, it would have made the necessary entry slightly more involved.

For example, J. Smart was allowed $2\frac{1}{2}$ per cent cash discount when settling his account of £200 on 1st September, 1952. His cheque for £195 was paid into the bank, but was returned on 5th September marked "Refer to drawer." The entries recording receipt and dishonour of the cheque would be as shown on page 166.

Bank Interest

If a firm should receive interest on a current account, the amount should be debited in the bank column of the cash book and credited to "Interest on Bank Current Account" in the ledger.

Interest on a deposit account would normally be credited by the bank to that account, in which case a journal entry would be necessary, debiting "Bank Deposit Account" and crediting "Interest on Deposit Account."

Multiple Current Accounts

A firm may keep more than one current account, either at the same bank or with different banks, in which case a separate cash book should be kept for each current account.

CASH BOOK

Dr.			*Discount*	*Cash*	*Bank*				*Discount*	*Cash*	*Bank*	*Cr.*
1952			£	£	£	1952			£	£	£	
Sept. 1	To J. Smart .		5		195	Sept. 5	By J. Smart (C.D.)		5		195	

LEDGER

J. SMART

Dr.				£				*Cr.* £
1952					1952			
Sept. 1	To Balance	b/d		200	Sept. 1	By Cash and Discount . .	C.	200
5	Cash and Discount (C.D.) .	C.		200				

("Cheque dishonoured" has been abbreviated to "C.D.")

EXERCISE XII

1. F. Graham's cash book showed a balance of £540 18s. 4d. cash at bank on 31st December, 1951. On that date his bank pass book showed a balance of £525 18s. 4d. cash at bank. The difference arose as follows—

Cheques drawn by F. Graham for £28 7s. 6d. in favour of Smith and £72 6s. 10d. in favour of Williams had not been presented by them for payment and £99 15s. 2d. received on 31st December, 1951, was not shown in the passbook until 2nd January, 1952. The bank had charged £15 19s. 2d. interest which had not been entered in the cash book.

You are required to prepare the reconciliation statement in proper form. (*R.S.A.*)

2. On Wednesday, 21st February, 1951, a trader's cash book showed a balance at bank of £124 12s. 7d., whereas the bank statement showed a favourable balance of £216 4s. 9d.

On that day the trader had drawn, entered in the cash book and posted cheques to a total value of £74 19s. 8d.

He noticed the bank statement contained an item of £40, being interest on one of his investments. This did not, as yet, appear in the cash book.

Prepare a bank reconciliation statement as at 21st February, 1951, giving two reasons to account for the unexplained difference between the two balances. (*R.S.A.*)

3. What is the purpose of preparing a bank reconciliation statement? Draw up a bank reconciliation statement from the following information at 31st December, 1951—

	£	s.	d.
Cash at bank on 31st December, 1951, as shown by the bank statement	240	8	6
Cheques drawn and entered in cash book, but not presented for payment at bank	58	10	4
Interest on 3½ per cent War Loan paid direct to the bank on 1st December, but not entered in the cash book	35	–	–
Cheques received and paid to bank, but not credited to the account by the bank until 1st January, 1952	73	12	10
Balance as shown by cash book, 31st December, 1951	220	11	–

4. F. Martin wishes to send a cheque by post to W. Morris, who has an account with the Westminster Bank, Ltd., at Dover.

Would you advise him to send an "Order" or a "Bearer" cheque?

Give reasons for your answer and state any precautions against theft which you consider advisable.

5. M. Beck obtains his pass book from the bank once a month. At the end of September, his cash book showed a balance of £42 8s. overdrawn and the bank pass book showed a balance of £1 19s. 3d. in hand. The difference was accounted for as follows—

(*a*) A cheque for £3 10s. paid into the bank by Beck on 30th September was not credited by the bank till 1st October.

(*b*) Cheques drawn by Beck for £11 7s. 6d. in favour of Kelsey & Co. in August, and for £9 19s. 6d. in favour of Robins & Co., and £28 1s. 3d. in favour of Smith & Co. in September, had not yet been presented.

(*c*) The bank pass book showed an entry on 15th September, of 10s. for a cheque book, and an entry on 30th September, of £1 1s. for bank charges, neither of which had been entered in the cash book.

Draw up a bank reconciliation statement and also a statement showing the additional entries required in the cash book and the correct bank balance. (*R.S.A.*)

6. On 31st May, 1951, T. Knight's cash book showed a balance of £34 7s. 8d. overdrawn on his bank account. On checking the cash book with the statement of his account received from the bank all the items were found to agree except the following—

(*a*) Cheques drawn and entered in the cash book on the 30th May, £28 10s. 5d. in favour of P. Martin and £17 4s. 10d. in favour of F. Peck, had not been presented at the bank for payment.

(*b*) The bank statement showed £5 8s. interest charged by the bank which Knight had not entered in his cash book.

(*c*) A cheque for £2 7s. 4d. which Knight had entered as a receipt in his cash book and had sent to the bank on 31st May, 1951, was not credited to his account by the bank until 2nd June, 1951.

Draw up a statement showing the balance which appeared on the bank statement on 31st May, 1951. (*R.S.A.*)

7. Draw up a bank reconciliation statement from the following information at 31st December, 1951—

	£	s.	d.
Balance as shown by cash book, 31st December, 1951. (*Dr.*)	532	6	11
Cheques drawn and entered in cash book, but not presented for payment at the bank	87	3	10
Interest on 3½ per cent War Loan paid direct to bank on 1st December, 1951, but not entered in cash book	85	–	–
Charges debited by the bank on 31st December, 1951, but not entered in the cash book	4	8	6
Cheques received and paid to bank not credited to the account by the bank until 1st January, 1952	172	8	3
Cash at bank on 31st December, 1951, as shown by the bank statement	527	14	–

8. The following represent copies of the bank column of the cash book and the bank pass book of William Wells. You are required to prepare from the information given a bank reconciliation statement.

Dr. CASH BOOK (BANK COLUMNS ONLY) *Cr.*

		£	s.	d.			£	s.	d.
Dec. 24	To Balance . .	360	12	–	Dec. 29	By R. Clark . .	12	12	–
27	J. Jackson .	56	10	–		N. Smith . .	144	7	6
28	E. Barber . .	120	8	9		N. Allen . .	35	16	–
	L. Field . .	42	–	–	31	Balance . .	386	15	3
		579	10	9			579	10	9

BANK PASS BOOK

		£	s.	d.			£	s.	d.
Dec. 24	To Balance . .	360	12	–	Dec. 31	By N. Smith . .	144	7	6
28	J. Jackson .	56	10	–		Balance . .	396	5	9
29	E. Barber . .	120	8	9					
31	Interest . .	3	2	6					
		540	13	3			540	13	3
Dec. 31	To Balance . .	396	5	9					

(*R.S.A.*)

9. Record the following in a three-column cash book—

1951
Dec. 31. Cash in Hand, £93 4s. 10d.; Cash at Bank, £1,486 9s. 2d.

1952
Jan. 2. Notice was received from the bank that a cheque for £24 7s. 6d., received from A. Blake and paid into the bank on 31st December, 1951, had been returned marked "no account."
3. £56 of the cash in hand was banked.
4. A cheque for £30 was drawn for office cash. £59 8s. 10d. wages was paid from cash.
5. A cheque for £95 was received from H. Wilson and paid to bank. He had deducted 5 per cent cash discount which was allowed.

Balance the cash book as on 5th January, and bring down the balances. No posting to the ledger is required. (*R.S.A.*)

10. From the following particulars prepare a statement showing how the difference between the cash book balance and the pass book balance is reconciled—

	£	s.	d.
Pass book balance, 30th June, 1951 . . .	1,401	12	6
Cash book balance, 30th June, 1951 . . .	557	10	1

Cheques drawn prior to 30th June, 1951, but not presented until after that date—

	£	s.	d.		£	s.	d.
P. . .	29	4	1	R. . .	5	14	9
Q. . .	801	3	6	S. . .	132	6	3

Country cheques paid into the bank on 30th June, 1951, not collected until 2nd June, 1951—£116 3s. 11d.

Bank charges and interest to 30th June, 1951, not entered in the cash book—£8 2s. 3d. (*R.S.A.*)

CHAPTER XIII

THE PETTY CASH BOOK

It is customary in business for small cash disbursements such as postage, carriage, travelling expenses and sundry office expenses to be entrusted to a petty cashier, who records his payments in a petty cash book.

It is a firm rule that the petty cashier should make payments only against receipted bills, or that he should obtain a receipt from the person being paid. Each of these vouchers should be given a serial number which should be recorded in the column provided in the book.

The Imprest System

The Imprest System is the name given to the method of keeping petty cash whereby the petty cashier is given a certain round sum to commence with, all his disbursements being made good at regular intervals so as to bring the amount in his charge up to the figure originally issued.

Assuming the imprest amount (sometimes referred to as a "float") is £20 at the beginning of the agreed period. At the end of the period, the vouchers for the disbursements will be submitted to the cashier, who will reimburse petty cash accordingly. This should bring the balance in hand back to £20, with which to commence the new period. Therefore, at any moment he may be called upon to do so, the petty cashier should be able to produce cash and vouchers totalling £20.

Payments made by the cashier to the petty cashier are recorded on the credit side of the cash book "By Petty Cash," and posted to the debit side of the petty cash book "To Cash."

The petty cash book usually contains analysis columns for the different kinds of expenditure, the totals of which are posted periodically to the debit of the relevant accounts (usually nominal accounts) in the ledger.

This method of dealing with small payments avoids crowding the cash book with items of relatively small importance.

Date	C.B. Folio	Amount Received	Analysis of Payments															
			Date	Details	Voucher No.	Total			Postage			Stationery			Carriage			Ledger Folio	Sundries		
1951		£ s. d.				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
Aug. 1	1	20 – –		Cash received																	
			Aug. 4	Postage . .	1	4	–	–	4	–	–										
			8	Stationery .	2		5	6				5	6								
			16	Carriage .	3		9	4							9	4					
			24	Jones & Co. .	4													P.L. 14	1	–	–
			31	Postage . .	5	1	–	–													
31	1	5 14 10		Cash received					4	–	–	5	6		9	4			1	–	–
				Balance .	c/d	20	–	–	(21)			(22)			(23)						
		25 14 10				25	14	10													
Sept. 1	b/d	20 – –	Sept. 1	Balance .																	

Furthermore, a considerable saving in time results from posting totals periodically instead of posting individual items as they arise. Regular agreement of the petty cash book reduces the risk of errors remaining undetected, and the imprest system makes frequent checking of the account an easy matter.

The example on p. 172 shows a common form of ruling for the petty cash book.

It will be seen that the balance brought down on 1st September equalled the amount brought down on 1st August.

The bracketed figures beneath the analysis columns are the folio numbers of the accounts in the nominal ledger which have been debited. The sundries column is used to contain items which cannot be placed in any of the defined expense columns, and which have in consequence to be posted individually. In the example shown, it records payment of a small purchases ledger balance, and this entry has been posted to the debit of Jones & Co.'s account in the purchases ledger.

The debit postings in the ledgers will be shown as "To Petty Cash" and the petty cash book folio number will be noted in the folio column.

It should now be obvious that the petty cash book is an integral part of the double-entry system. It is, in fact, a subsection of the cash book, upon which it depends for its funds and whose minor duties it performs. It follows from this that the balance of petty cash must appear in the trial balance along with the other cash balances.

EXERCISE XIII

1. Give ruling of a columnar petty cash book with four analysis columns and record therein the following transactions of A. Marchant's office—

1951

Jan. 1. Received rom bank for petty cash £25.
Paid carriage on goods received per Express Co., £1 3s. 3d.

2. Purchased postage stamps £3.

3. Staff teas for week to date—Milk 3s. 6d., Tea 1s. 2d., Biscuits 2s. 6d.
Paid carriage on goods purchased 18s. 9d.

Jan. 5. Paid for office cleaning 18s. 4d.
6. Purchased office stationery £1 3s. 11d.

Rule off and bring down the balance as on 6th January, 1951.
(*R.S.A.*)

2. Explain shortly the working of the Imprest Petty Cash System. Give as an illustration a ruling (with three analysis columns), and enter therein the following items and post to the ledger—

		£	s.	d.
Jan. 1.	Balance in hand (float)	20	–	–
5.	Paid for postage stamps	1	10	–
7.	„ telegrams		10	6
10.	„ office tea, etc.		18	9
14.	„ sundry cash purchases of goods for re-sale	8	7	6
20.	Paid for stationery	1	2	3
23.	„ parcel post		4	–
30.	„ subscription to trade periodical	2	2	–
31.	Received reimbursement for the month's expenditure, to restore the float.			

3. A cashier keeps an *analysed* petty cash book on the *imprest* system.

Explain carefully the meaning of the two words in italics above, and give an illustration of such a petty cash book with specimen entries for a week showing not less than six payments and one receipt.

4. Rule a columnar petty cash book containing provision for the following headings—

Postage, Telegrams, etc.; Carriage; Office Expenses; Stationery, etc.; Travelling; Salaries & Wages; Sundries.

Record the undermentioned transactions in the petty cash book. Bring down the balance as on the 6th December, 1951, and enter the amount which should be received from the cashier to make up the amount of the "imprest," viz. £20.

1951		£	s.	d.
Dec. 1.	Received from the cashier a cheque (which was cashed) for £12 8s. 7d. the amount required to make up the amount of the "imprest," viz.	20	–	–
	Purchased stamps	1	10	–
	Paid office cleaner		5	–
2.	Purchased stationery		12	–
	Paid for telegram to J. Brown		1	8
	Purchased new office stool		12	–
3.	Paid for fares to Chiswick		1	–
	Paid account for telephone trunk calls for November	1	18	9

		£	s.	d.
Dec. 4.	Paid carriers' account	1	2	4
	Received from Inland Revenue for spoiled stamps	1	8	6
	Paid for insertion in directory		5	–
	Paid for return fare to St. Albans		3	10
	Purchasing packing materials	1	19	4
5.	Paid window cleaner		6	6
	Purchased pens and pencils		5	3
6.	Paid wages to two casual men at 5s. per day each, for three days.			
	Paid fares of office boy and typist	1	15	–

(*Balance*, £9 0s. 10d.) (*R.S.A.*)

5. Prepare a columnar petty cash book upon the imprest system, record the undermentioned transactions, and bring down the balance as on 6th January, 1952.

1951
Dec. 31. Cash in Hand, £5 3s. 7d.

1952
Jan. 1. Received the amount necessary to make up the imprest to £10.
2. Bought postage stamps, £1 10s.
Paid carriage on parcel, 3s. 7d.
3. Paid travelling expenses, 11s. 10d.
4. Bought packing materials, £1 3s. 6d.
Bought stationery, 4s. 8d.
5. Paid wages to odd-job man, 6s.
6. Bought job line of goods for cash from H. Saunders, £1 15s.

(*Balance*, £4 5s. 5d.) (*R.S.A.*)

6. On 1st March, 1951, the financial position of C. Mellor, a manufacturer of leather goods, was as follows—

Cash at Bank, £417; Machinery, £850; Stock, £630; Debtor: P. Kemp, £84; Creditor: S. Hook, £95.

You are required to—

(*a*) Give the journal entry to record the above and open the ledger accounts.

(*b*) Post the cash book items shown on p. 176 to the ledger.

(*c*) Record, through the proper subsidiary books, the following—

1951
Mar. 25. Bought on credit from S. Hook: Brass trunk locks, £33; handbag linings, £12 15s.; stitching thread, £10 5s. (the whole invoice being subject to 10 per cent trade discount).
26. Sent a credit note for £12 to P. Kemp for goods returned by him.

Dr. C. MELLOR'S CASH BOOK *Cr.*

1951		Discount £ s. d.	Bank £ s. d.	1951		Discount £ s. d.	Bank £ s. d.
Mar. 1	To Balance . . .		417 – –	Mar. 5	By S. Hook . . .	2 7 6	92 12 6
4	Cash Sales . .		73 18 –	7	C. Mellor, Drawings .		25 – –
6	Sale of Machinery .		15 – –	8	Cheque cashed for petty cash . .		30 – –
11	P. Kemp . .	2 2 –	81 18 –				
18	Cash Sales . .		118 5 –	15	Leather-stitching machine . .		85 17 –
				27	Purchase of leather .		102 14 6
				31	Balance c/d . .		369 17 –
		2 2 –	706 1 –			2 7 6	706 1 –
Mar. 31	To Balance b/d . .		369 17 –				

(*d*) Post the following petty cash book to the ledger—

C. MELLOR'S PETTY CASH BOOK

£ s. d.	1951		Total £ s. d.	Office Expenses £ s. d.	Purchases £ s. d.	Postage £ s. d.	Wages £ s. d.
30 – –	Mar. 8	Cheque cashed					
	9	Stamps	2 – –			2 – –	
	12	Tea, milk, etc.	1 10 4	1 10 4			
	15	Wages paid	8 8 6				8 8 6
	23	Job lot, pigskin	8 4 –		8 4 –		
	28	Fares and stamps	1 6 7	6 7		1 – –	
	29	Wages paid	3 2 –				3 2 –
			24 11 5	1 16 11	8 4 –	3 – –	11 10 6
		Balance c/d	5 8 7				
30 – –			30 – –				
5 8 7	Mar. 31	Balance b/d					

(*e*) Extract a trial balance as on 31st March, 1951.

Note. Candidates are not required to copy out the cash book or the petty cash book. (*R.S.A.*)

7. On 1st January, 1952, the position of N. Smith, a trader, was as follows—

Cash at Bank, £189 12s. 6d.; Debtors: G. Brown, £28 10s., M. Black, £127 15s.; Creditor: R. Green, £118 15s.; Stock, £376 12s. 11d.; Furniture and Fittings, £750.

Open by journal entry the accounts necessary to record the above position in N. Smith's books and post thereto, using the proper subsidiary books, the following transactions—

(*Note.* A Petty Cash Book having two analysis columns for (1) purchases and (2) office expenses, is to be used for recording payments in cash. All cheques received are paid to bank on day of receipt and no cash column is therefore required in the main cash book.)

1952

Jan. 1. Drew and cashed a cheque for £25 for petty cash.
2. Received cheque from G. Brown for the amount due from him *less* 5 per cent cash discount.
3. Sold to D. Russell on credit goods invoiced at £120 *less* 15 per cent trade discount.
4. Paid from petty cash, wages £8, purchases £5 10s.
5. D. Russell returned one half of goods invoiced on 3rd January, as being in excess of order.
6. Purchased on credit from L. Lunn goods for £125.
7. Sold goods on credit to T. Jones for £130.
8. M. Black sent a cheque for amount due from him.

Jan. 9. D. Russell sent his cheque for amount due from him, *less* 5 per cent cash discount.
10. Paid Furniture, Ltd., a cheque for £50 for office furniture.
Paid rent for quarter to 25th March, 1952, £120.
11. Paid from petty cash, wages £7 15s., office expenses, 10s. 6d.
12. Paid L. Lunn amount due, *less* 2½ per cent cash discount.

Balance the cash book and petty cash book and personal ledger accounts, bringing down the balances, and extract a trial balance as on 12th January, 1952.

No trading account, profit and loss account or balance sheet is to be prepared. (*R.S.A.*)

8. P. Steadman is in business as a tailor. He banks in full all cash received, bankings being made twice weekly (on October 20th and 23rd in the week covered by this exercise) and keeps an analysed petty cash book using the headings: Cash Purchases, Postage and Stationery, Wages, and Sundry Trade Expenses. Cash Sales are extended into a special column in the cash book, the total of this column being posted weekly.

Steadman's assets and liabilities on 17th October, 1951, were as follows—

Fixtures and Fittings, £325; Stock, £1,790 5s.; Debtors: M. Noble £17 13s. 6d., R. Hickman £35 15s., sundry other debtors £532 17s.; Cash at Bank, £256 17s. 2d.; Cash in Hand (receipts not yet banked), £19 3s. 9d.; Petty Cash, £7 3s. 3d.; Creditors: D. Stanley £37 5s., C. Bird £25 18s. 9d., sundry other creditors £155 2s. 4d.

Record the above by journal entry and enter the following transactions in the proper books of original entry—

1951
Oct. 19. Bought from O. Stanley on credit, 20 yards of tweed at 12s. 6d. per yard and 6 yards of serge at 11s. per yard, both subject to 5 per cent trade discount.
Received from R. Hickman a cheque for £10 on account.
Cash sales for the day amounted to £3 17s. 6d.
20. Sold on credit to M. Noble, one ready-made sports jacket for £2 10s., and charged him 13s. for alterations to an overcoat. (Alterations for customers are treated as sales.)
Paid from petty cash 8s. 9d. for string and wrapping paper and £2 for stamps.
Cash sales for the day amounted to £4 19s. of which 18s. was received too late to bank.
Bought on credit from C. Bird, one dozen caps at 4s. 6d. each, 6 pullovers for £2 17s. 6d. the lot, and three dozen pairs of braces at 23s. per dozen.
Presented 4 chairs (from fixtures and fittings) valued at 7s. 6d. each to the local Y.M.C.A. canteen.

Oct. 21. Delivered to R. Hickman a suit invoiced at £7 17s. 6d. and an overcoat invoiced at £5 12s. 6d. Cash sales for the day amounted to £8 3s. 3d.

22. Paid by cheque O. Stanley's account for September, £32 10s. and an account from S. Horton for £3 7s. 6d. for repairs to shop fittings.

Paid from petty cash £1 1s. 6d. for stationery and £1 7s. for half a dozen scarves.

Cash sales for the day amounted to £1 8s. 6d.

23. Received a credit note from C. Bird for one cap returned as faulty.

Cashed a cheque for £30 for petty cash, out of which Steadman took £5 for drawings, and paid £17 5s. for wages and 3s. for cleaning the shop windows.

M. Noble paid his account, deducting 2½ per cent for cash discount.

Cash sales for the day amounted to £7 3s., of which £2 6s. 6d. was received too late to bank.

24. Cash sales for the day amounted to £6 11s.

Complete all postings to the ledger, balance the cash book, petty cash book, and ledger, and prepare a trial balance as on 24th October, 1951. No trading or profit and loss account is required.

CHAPTER XIV

COLUMNAR BOOK-KEEPING

When a business is divided into departments, it is desirable that departmental trading results should be ascertained in addition to results for the business as a whole.

Such results would indicate the individual and relative efficiencies of the departments, and would show the direction in which fresh capital might be most profitably employed.

The necessary records may be kept in a separate set of books for each department, but a simpler method, often used in business, is to use columnar books.

Columnar Sales Book

To provide an example, assume that a firm deals in ordinary graphite and coloured pencils. The sales book would be subdivided in this way—

COLUMNAR SALES BOOK 6

Date	*Particulars*		*Details*	*Total*	*Graphite*	*Coloured*
			£ s. d.	£ s. d.	£ s. d.	£ s. d.
1952 Oct. 1	J. Smith					
	12 doz. Graphite at 5/– doz.		3 – –			
	Less 10% trade discount		6 –			
		10		2 14 –	2 14 –	
4	T. Jones					
	15 doz. Blue at 6/– doz.		4 10 –			
	Less 10% trade discount		9 –			
		11		4 1 –		4 1 –
	Credit sales account	4		6 15 –	2 14 –	4 1 –

In the ledger a separate sales account could be kept for each type of pencil, but a more convenient method would be to keep a columnar sales account, which is now shown, together with the personal accounts involved, on page 181.

A summarized form of sales book is sometimes adopted in order to save time. Containing the foregoing transactions it would appear as shown on page 182.

The inclusion of a column for the invoice serial number makes it an easy matter to refer to invoices for details. The invoices should of course be filed in numerical order.

4 *Dr.* SALES *Cr.* 4

									Total			Graphite			Coloured		
						1951 Oct. 4	By Sundries .	S.6	£ 6	s. 15	d. –	£ 2	s. 14	d. –	£ 4	s. 1	d. –

10 *Dr.* J. SMITH *Cr.* 10

1951			£	s.	d.						
Oct. 1	To Goods	S.6	2	14	–						

11 *Dr.* T. JONES *Cr.* 11

1951			£	s.	d.						
Oct. 4	To Goods	S.6	4	1	–						

Date	*Invoice No.*	*Name*	*Ledger Folio*	*Total*	*Graphite*	*Coloured*
				£ s. d.	£ s. d.	£ s. d.
1951						
Oct. 1	21	J. Smith	10	2 14 –	2 14 –	
	22	T. Jones	11	4 1 –		4 1 –
		Credit Sales account . .	4	6 15 –		
					2 14 –	4 1 –

Columnar Purchases Book

This is very similar in form to the columnar sales book, but additional columns are usually provided for purchases on credit of goods other than those for resale. Provided that care is taken to ensure that all purchases are correctly analysed, this is a very useful extra function and reduces the need for use of the journal. An example of a columnar purchases book is shown on p. 183.

The ledger accounts recording these transactions appear on p. 184.

Columnar Trading and Profit and Loss Accounts

For purposes of comparison, trading and profit and loss accounts can be prepared in columnar form.

EXAMPLE. The following figures were extracted from the books of a firm carrying on a similar business to that just described—

	Graphite	*Coloured*
	£	£
Stock at 1st January, 1952 . . .	400	500
Purchases	2,500	2,700
Wages	500	620
Rent	100	120
Rates	50	60
Gas and Electricity	20	30
Delivery Expenses	80	100
Depreciation	40	50
Office Salaries	300	350
Sales	4,000	4,400
Stock at 31st December, 1952 . . .	200	300

Trading and profit and loss accounts in columnar form are to be prepared for each of the departments. (These accounts are shown on p. 185.)

Further comparison of these figures would be made possible by expressing gross profit, net profit and the items of expenditure as percentages of turnover.

COLUMNAR PURCHASES BOOK

Date	Particulars	Invoice No.	Ledger Folio	Details	Total	Graphite	Coloured	Packing	Stationery
1951				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Oct. 1	R. Foster	14							
	10 doz. Graphite at 4/– doz.			2 – –					
	Less 10% trade discount			4 –					
			23		1 16 –	1 16 –			
2	L. Thompson	15							
	10 doz. Red at 5/– doz.			2 10 –					
	Less 10% trade discount			5 –					
			24		2 5 –		2 5 –		
3	T. Shaw & Sons	16							
	10 doz. Boxes at 6/– doz.		25		3 – –			3 – –	
4	R. Smith & Sons	17							
	1,000 Business Envelopes		26		1 – –				1 – –
					8 1 –	1 16 –	2 5 –	3 – –	1 – –
						(7)	(7)	(8)	(9)

7 *Dr.* PURCHASES *Cr.* 7

1951			Total			Graphite			Coloured		
			£	s.	d.	£	s.	d.	£	s.	d.
Oct. 4	To Sundries .	P.4	4	1	–	1	16	–	2	5	–

8 *Dr.* PACKING *Cr.* 8

1951			£
Oct. 4	To Sundries	P.4	3

9 *Dr.* STATIONERY *Cr.* 9

1951			£
Oct. 4	To Sundries	P.4	1

23 *Dr.* R. FOSTER *Cr.* 23

				1951			£	s.	d.
				Oct. 1	By Goods	P.4	1	16	–

24 *Dr.* L. THOMPSON *Cr.* 24

				1951			£	s.	d.
				Oct. 2	By Goods	P.4	2	5	–

25 *Dr.* T. SHAW & SONS *Cr.* 25

				1951			£
				Oct. 3	By Packing Material . . .	P.4	3

26 *Dr.* R. SMITH & SONS *Cr.* 26

				1951			£
				Oct. 4	By Stationery	P.4	1

Dr. **Trading Account** *Cr.*
for Year ended 31st December, 1952

		Total £	*Graphite* £	*Coloured* £			*Total* £	*Graphite* £	*Coloured* £
Jan. 1	To Stock . .	900	400	500	Dec. 31	By Sales . .	8,400	4,000	4,400
Dec. 31	Purchases .	5,200	2,500	2,700		Stock . .	500	200	300
	Wages . .	1,120	500	620					
	Gross Profit .	1,680	800	880					
		8,900	4,200	4,700			8,900	4,200	4,700

Dr. **Profit and Loss Account** *Cr.*
for Year ended 31st December, 1952

		Total £	*Graphite* £	*Coloured* £			*Total* £	*Graphite* £	*Coloured* £
Dec. 31	To Rent . .	220	100	120	Dec. 31	By Gross Profit .	1,680	800	880
	Rates . .	110	50	60					
	Gas and Electricity . .	50	20	30					
	Delivery Expenses . .	180	80	100					
	Depreciation .	90	40	50					
	Office Salaries .	650	300	350					
	Net Profit .	380	210	170					
		1,680	800	880			1,680	800	880

EXERCISE XIV

1. T. Woolpack is a dealer in textiles. He divides his business into three departments—Linens, Cottons, and Woollens.

Give the ruling of a purchase book suitable for his use, and enter therein the following purchases from B. Blank, Ltd.—

1951
July 12. 3,000 pieces of linen damask at £1 per piece, *less* 25 per cent trade discount.
200 yards of West of England woollen cloth at 6s. 3d. per yard.
31. 33 gross of assorted cotton goods at £19 per gross.
A job lot of assorted goods; linens value £50, and cottons value £100.

Add up and rule off the purchase book, and state which figures would be posted to the ledger, to which accounts they would be posted, and to which side of such accounts they would go. (Ledger accounts are not to be opened.) (*R.S.A.*)

2. D. Kettle & Co. are provision importers. They divide their business into three departments—(i) Butter and Eggs, (ii) Poultry and Bacon, and (iii) Tinned or bottled goods. Rule a suitable purchase book and enter the following invoices therein—

1951
Nov. 12. M. Peterson, 50 cases of eggs at 115s. per case; 30 cwt. of bacon at 80s. per cwt., and 20 gross condensed milk at 96s. per gross.
13. A. Merrick, 20 gross of "Amber" peaches in syrup, at £9 per gross.

(*R.S.A.*)

3. R. Lane is a textile merchant; his business is divided into two departments: (i) Linen, and (ii) Cotton. Give the ruling for a suitably analysed purchase day book and enter therein the following invoices—

1951
March 1. Mr. Ferguson, 400 yards of printed linen at 18s. per yard, *less* 25 per cent trade discount, and 4 gross of assorted cotton lengths at £19 12s. per gross.
2. B. Smith, assorted lots: linen £125, cotton goods £125.
3. F. Maxwell, 4½ gross of linen cloths at £144 per gross.

4. A. Parker, a cloth merchant, divides his sales into three departments—Silk, Woollens, and Cotton.

You are required to (*a*) enter the following sales in an analysed sales day book; (*b*) total the sales day book as on 30th April, 1951,

and state clearly but shortly what figures you would post to the ledgers and what accounts would be debited or credited.

1951
April 27. Sold to F. Croft and Son, 60 yards of silk at 18s. per yard, and 20 yards of woollen tweed at 15s. per yard.
28. Sold to C. Milne, 52 yards of silk at 10s. 6d. per yard.
Sold to H. White, 15 yards of woollen tweed at 17s. 9d. per yard.
30. Sold to M. Green, 60 yards of cotton print at 3s. per yard, *less* 10 per cent trade discount.

5. B. Martin is a coal merchant. He had the following credit transactions during June, 1951—

1951
June 3. Bought from Bestcole Colliery Co., 50 tons of coal costing £175.
5. Bought from the Main Gas Co., 75 tons of coke costing £253 15s.
8. Sold to F. Hughes 14 tons of coal for £56.
10. Sold to Good Hotels, Ltd., 50 tons of coal for £200 and 28 tons of coke for £106 8s.
15. Bought from Fuel Supplies, Ltd., 20 tons of coal for £72, and 15 tons of coke for £48.
25. Sold to P. Wells 55 tons of coke for £220.

You are required to (*a*) enter the above transactions in B. Martin's purchases and sales day books, giving analysis columns for coal and coke; (*b*) prepare separate trading accounts for coal and coke for the month of June.

The following stock valuations had been made—

1st June, 1951: Coal £115, Coke £218.
30th June, 1951: Coal £141, Coke £231.

6. W. Newton is a cloth merchant. His purchases, sales and returns in March, 1951, were—

Purchases

No. 1. Tweed, 180 yards at 30s. per yard.
No. 2. Gabardine, 100 yards at 20s. per yard.
No. 3. Flannel, 150 yards at 18s. per yard.

Purchases Returns

No. 2. Gabardine, 20 yards. Credit received at invoice price.

Sales

No. 1. Tweed, 160 yards at 40s. per yard.
No. 2. Gabardine, 30 yards at 30s. per yard.
No. 3. Flannel, 100 yards at 25s. per yard.

Sales Returns

Credit at invoiced price was given for the following—
No. 2. Gabardine, 20 yards returned in good saleable condition.
No. 3 Flannel, 25 yards returned as defective.

The 25 yards of defective flannel was valued for stocktaking at 31st March, 1951, at only 15s. per yard.

W. Newton had no stock on 1st March, 1951.

State the quantity and value of each kind of cloth in stock on 31st March, 1951, and give a trading account showing W. Newton's gross profit for the month. (*R.S.A.*)

7. P. Gold is a coal and coke merchant. His credit purchases and sales during March, 1951, were—

1951
March 3. Sold to G. Dickson, 18 tons of coal for £67 10s.
5. Bought from Best Coke Co., 78 tons of coke at a cost of £234.
8. Bought from Lass Colliery Co., Ltd., 50 tons of coal for £125.
11. Sold to H. Morse 22 tons of coal for £88 and 10 tons of coke for £40.
16. Bought from N. Lambert 25 tons of coal for £62 10s. and 20 tons of coke for £60.
24. Sold to H. Bowles 53 tons of coke for £212.

You are required to (*a*) enter the above transactions in P. Gold's purchases and sales books, giving analysis columns for coal and coke; (*b*) prepare separate trading accounts for coal and coke for the month of March, to show the gross profit on each commodity. The stock valuations were—

1st March, 1951: Coal £178, Coke £159.
31st March, 1951: Coal £260, Coke £264.

8. On 1st March, 1951, H. Dickson sold the following goods on credit, to Q. Alexander—

10 Indian square carpets at £6 12s. each.
40 pieces cotton sheeting at £5 per piece.
10 cases fancy goods at £3 14s. per case.
(All subject to 10 per cent trade discount.)

On 6th March, 1951, Alexander returned two carpets and one case fancy goods as damaged.

Dickson divides his business into three departments, viz. Carpets, Cottons, and Fancy Goods, and arranges his book-keeping accordingly.

Give the entries necessary to record the sale and return of the above goods as they would appear in H. Dickson's books.

(*R.S.A. II*)

9. A trader opens a shop dealing in cigarettes, sweets and stationery. In order to ascertain separately the trading profit realized by each of these commodities he adopts, as far as may be necessary, the columnar system of book-keeping.

Give suitable rulings for the purchase day book and the nominal account(s) affected, and insert sufficient entries to make clear the working of the system. (*R.S.A. II*)

10. What do you understand by the columnar system of book-keeping? State some of its advantages and give an illustration showing how it can be applied to the records of a particular business. (*R.S.A. II*)

11. A trader wishes to ascertain separately the gross profit earned by each of the two departments which comprise his business.

Show how the columnar system of book-keeping would allow him to do this without opening any additional books or accounts. Give any necessary rulings and explain how the system works.

(*R.S.A. II*)

CHAPTER XV

PARTNERSHIP

Owing to the very large increase in the population of Great Britain during the 19th century, the demand for all types of goods and services grew to proportions that called for handling by some larger form of business organization than that provided by the sole trader, whose functions were taken over to an increasing extent by firms consisting of a number of partners.

Partnership is "the relation which subsists between persons carrying on business in common with a view to profit." In partnership matters, each partner may act for the others, a condition calling for a high degree of mutual trust, upon which the success of the venture would largely depend.

The number of partners for a banking business is limited to ten, and the maximum number permissible in any other partnership to twenty. In practice, however, the number of partners rarely exceeds five or six.

It is obviously advisable for persons who intend entering business together to draw up an agreement governing the arrangement; such a document is referred to as the Articles of Partnership. A partnership may also be entered into orally, or it may even be assumed from the conduct of the parties concerned, who may be acting as partners without actually having declared themselves as such.

The Partnership Act, 1890

The provisions of this Act will govern a partnership in those matters which are not covered by any agreement.

It is customary and prudent to set out the rights of the partners in the articles of partnership, but in the absence of such provision Section 24 of the above Act lays down the following rules—

1. Profits and losses are to be shared equally.
2. Each partner is to be idemnified for payments properly made on behalf of the firm.

3. Five per cent per annum interest is to be allowed on sums advanced by the partners to the firm, other than capital.

4. Partners are not entitled to interest on capital.

5. All partners may take part in the management of the business.

6. No partner shall be entitled to a salary.

7. A new partner cannot be introduced without the consent of all existing partners.

8. Differences on ordinary matters are to be decided by a majority of the partners, but a change in the nature of the firm's business will require the consent of all the partners.

9. The partnership books are to be kept at the principal place of business, and are to be accessible to all partners.

If partners contributed capital in unequal amounts, they would normally wish to share profits in proportion to their capitals. Again, it might be reasonable for a partner to be paid a salary, and for interest to be chargeable on drawings. Such matters are usually provided for in well-drafted articles of partnership, and the importance of this document will thus be appreciated.

The Limited Partnership Act, 1907

Under the Partnership Act, 1890, the liability of a partner extends not only to his share in the business but to his private estate as well, and all the partners are jointly liable for the whole of the firm's debts contracted while they have been in the business. Under these conditions it is possible for a person to assume the liabilities of partnership even though he is not actively engaged in the firm's business. He can be what is referred to as a "sleeping" or "dormant" partner, but still be jointly liable with the active partners, as the liability extends to *all* partners.

It is likely that the misfortunes of those whose main concern was investment, and not active participation in a business, led to the passing of the Limited Partnership Act, which provides a means for such people to invest in a partnership if they do not wish to incur such heavy liabilities as the 1890 Act imposes.

The Limited Partnership Act, 1907, allows the admission of persons into a business as limited partners. The liability of

such a partner is limited to the amount of capital which he has agreed to contribute. He may partake in the profits of a business, but must not take part in the management; if he does take such part, he will immediately assume the liabilities of a general partner.

A firm which is a limited partnership must be registered with the Registrar of Companies; the total number of partners must not exceed ten where the business is that of banking, or twenty for other types of business, and must include at least one general partner to assume all the firm's liabilities.

The provisions which limit the number of partners of which a firm may consist operate also to limit the capital available. Consequently, partnerships are usually restricted to firms whose business depends not so much on capital resources as upon the ability, experience and business connections of the partners themselves, e.g. doctors, dentists, and accountants.

EXERCISE XV

1. It has been said that lack of capital is the vital defect of partnership, and yet a partnership is rarely found in practice with more than four or five partners, in spite of the fact that the legal maximum in businesses other than banking is twenty partners. Explain this apparent inconsistency.
2. Subject to agreement between the partners a partnership is governed by the Partnership Act, 1890. Explain this statement and give the contents of Section 24 of the Partnership Act, 1890.
3. It is possible for a person to invest in a partnership without the risk of unlimited liability. Explain this statement.
4. Account for the development of partnership as a form of business organization.
5. Describe the ways in which agreement between partners may be effected. Which method do you recommend? Give your reasons.

CHAPTER XVI

THE BOOKS OF A PARTNERSHIP

The books of account of a partnership are kept on similar lines to those already described, but provision is made for the following additional accounts—

Partners' Capital Accounts.
Partners' Current Accounts.
Interest on Drawings.
Interest on Capital.
Partnership Salaries.

Partners' Capital Accounts

A separate capital account must be opened for each partner in order to provide a permanent record of individual capital investments.

Partners' Current Accounts

It is advisable to open also a current account for each partner, wherein may be recorded his current transactions with the firm. This a much better arrangement than recording such transactions in the capital account.

The credit side of the current account will show amounts due to the partner by way of share of profits, interest on capital, salary and other like items, and on the debit side sums due from the partner, such as drawings and interest on drawings. Drawings are due from the partner to the firm as they represent the amount he has borrowed from the firm in anticipation of his share of profits, which will be reduced at the end of the financial year by the amount of such borrowings. The substitution of current accounts for drawings accounts in the books of a partnership is necessary in order to accommodate transactions other than drawings which take place between a partner and his firm, but which do not arise in the business of a sole trader. A credit balance in a partner's current account represents an amount due to him from the

firm, and is therefore the firm's liability. A debit balance on the other hand represents the reverse condition.

Sometimes articles of partnership stipulate that partners' capitals shall be maintained at fixed amounts, in which case only capital contributions must be recorded in capital accounts, all other transactions between the partners and the firm to be entered in their current accounts. This method has the advantage of facilitating the checking of each partner's financial relationship to the firm without disturbance of the capital account.

Interest on Drawings

Interest on drawings is the amount a partner owes for the privilege and convenience he enjoys of using in advance a part of his share of profit. To the firm this interest is a gain, and is therefore credited in the Interest on Drawings account. The debit appears in the partner's current account.

Interest on Capital

The allowance of interest on capital is a frequent condition which arises in partnership agreements. It is based on the assumption that ordinary investment outside the business would provide such a return without the attendant risks of partnership, the true profits of which are regarded as the amount available after allowing for interest on capital.

Interest on Capital account is debited and partners' current accounts credited.

Partnership Salaries

Any salaries due to partners should be kept separate from salaries paid to employees and debited to a Partnership Salaries account. The relevant current accounts would be credited.

These debts between the partners and the firm are usually settled by making adjustments in the accounts at the end of each trading period.

EXAMPLE. A Wilson and T. Jackson are in partnership sharing profits and losses equally. On 1st January, 1952, Wilson's capital was £20,000, and Jackson's capital £10,000. The partners are entitled to interest on capital at 5 per cent per annum, and chargeable with interest on drawings at the

same rate. T. Jackson draws a salary of £500 per annum. A. Wilson drew £600 on 1st July, 1952, and T. Jackson drew £400 on £1st July, 1952, on account of profits. The necessary records would be—

PRIVATE JOURNAL OF A. WILSON AND T. JACKSON

1951			£	£
Dec. 31	Interest on Capital . . . *Dr.*	5	1,500	
	To A. Wilson Current Account .	3		1,000
	T. Jackson's Current Account .	4		500
	Being 5 per cent per annum interest on capital for year.			
31	A. Wilson Current Account . *Dr.*	3	15	
	T. Jackson's Current Account . „	4	10	
	To Interest on Drawings . .	6		25
	Being interest at the rate of 5 per cent per annum on drawings.			
31	Partnership Salaries . . . *Dr.*	7	500	
	To A. Jackson Current Account .	4		500
	Being salary due for year.			

PRIVATE LEDGER OF A. WILSON AND T. JACKSON

1 *Dr.* A. Wilson Capital Account *Cr.* 1

					1952			£
					Jan. 1	By Balance . .		20,000

2 *Dr.* T. Jackson Capital Account *Cr.* 2

					1952			£
					Jan. 1	By Balance . .		10,000

3 *Dr.* A. Wilson Current Account *Cr.* 3

1952			£	1952			£
July 1	To Cash . .	C.	600	Dec. 31	By Interest on Capital .	J.	1,000
Dec. 31	Interest on Drawings .	J.	15				

4 *Dr.* T. Jackson Current Account *Cr.* 4

1952			£	1952			£
July 1	To Cash . .	C.	400	Dec. 31	By Interest on Capital .	J.	500
Dec. 31	Interest on Drawings .		10	31	Salary . .	J.	500

5 *Dr.* INTEREST ON CAPITAL *Cr.* 5

1952			£				
Dec. 31	To Partner's Current Accounts	J.	1,500				

6 *Dr.* INTEREST ON DRAWINGS *Cr.* 6

				1952			£
				Dec. 31	By Partners' Current Accounts	J.	25

7 *Dr.* PARTNERSHIP SALARIES *Cr.* 7

1952			£				
Dec. 31	To T. Jackson Current Account	J.	500				

Final Accounts

In preparing the final accounts of a partnership, it is useful as an index of efficiency to ascertain the net profit before making the adjustments in respect of interest and partners' salaries. To permit this arrangement, the profit and loss account is divided into two sections, the first section being in the same form as that used by a sole trader, except that it is usual to refer to the balance as "net trading profit" rather than "net profit."

The second section, which is usually referred to as the "Profit and Loss Appropriation Account," is used for the adjustment of partners' accounts, and will contain entries relative to interest on capital and drawings, partnership salaries, and the division of the available profit.

Interest on capital and partnership salaries, although representing gains to the partners themselves, are losses to the firm, and are therefore debited in the appropriation account. Interest on drawings will be credited in the appropriation account for opposite reasons.

In the balance sheet, partners' current accounts are shown separately from capital accounts.

When current accounts are not opened, and current items are entered in partners' capital accounts, it is said that the partners' capital accounts are not "fixed." From what has been mentioned previously, it will be clear that such an arrangement could not be recommended.

A worked example of partnership final accounts is now provided—

EXAMPLE. From the following trial balance of E. Williams and R. Salt prepare trading and profit and loss account and balance sheet for the year ended 31st December, 1952—

	£	£
Capital—E. Williams		8,000
Capital—R. Salt		6,000
Drawings—E. Williams	600	
Drawings—R. Salt	400	
Premises	5,000	
Plant and Machinery	10,000	
Office Furniture	4,000	
Debtors and Creditors	6,000	8,000
Discounts	400	600
Salaries	2,000	
Wages	3,000	
Wages owing		200
Rent	200	
Rates	200	
Rates prepaid	50	
Advertising	400	
Bad Debts	200	
Depreciation, Plant and Machinery	400	
Carriage Inward	200	
Carriage Outward	400	
Returns Inward and Outward	400	500
Purchases and Sales	10,000	28,650
Stock, 1st January, 1952	6,000	
Cash at Bank	2,000	
Cash in Hand	100	
	51,950	51,950

Partners are to be allowed 5 per cent per annum interest on capital, and to be charged 5 per cent per annum interest on drawings. E. Williams is entitled to a yearly salary of £400. Depreciate Premises 2 per cent and Office Furniture 5 per cent. Create a Provision for Bad Debts of 5 per cent on Debtors. Rent owing £100. Advertising posters in stock £100. Stock of goods on hand £2,000.

It will be noted that although plant and machinery are shown at £10,000 in the trial balance, it is necessary to show in the balance sheet that this amount is arrived at after deduction of depreciation.

Trading Account
Dr. for Year ended 31st December, 1952 *Cr.*

		£	£			£	£
Jan. 1	To Stock		6,000	Dec. 31	By Sales	28,650	
	Purchases	10,000			*Less* Returns	400	
	Less Returns	500					28,250
			9,500		Stock		2,000
	Wages		3,000				
	Carriage Inward		200				
	Gross Profit		11,550				
			30,250				30,250

Profit and Loss Account
Dr. for Year ended 31st December, 1952 *Cr.*

		£	£			£
Dec. 31	To Discount Allowed		400	Dec. 31	By Gross Profit	11,550
					Discount Received	600
	Salaries		2,000			
	Rent	200				
	Add amount owing	100				
			300			
	Rates		200			
	Advertising	400				
	Less posters in stock	100				
			300			
	Bad Debts		200			
	Carriage Outward		400			
	Depreciation—					
	Plant and Machinery	400				
	Premises	100				
	Office Furniture	200				
			700			
	Provision for Bad Debts		300			
	Net Trading Profit		7,350			
			12,150			12,150

Profit and Loss Appropriation Account
Dr. for Year ended 31st December, 1952 *Cr.*

		£	£			£	£
Dec. 31	To Interest on Capital—			Dec. 31	By Net Trading Profit		7,350
	E. Williams	400			Interest on Drawings—		
	R. Salt	300			E. Williams	30	
			700		R. Salt	20	
	Partner's Salary (E. Williams)		400				50
	Share of Profit—						
	E. Williams (½)		3,150				
	R. Salt (½)		3,150				
			6,300				
			7,400				7,400

BALANCE SHEET OF E. WILLIAMS AND R. SALT AS AT 31ST DECEMBER, 1952

Liabilities	£	£	*Assets*	£	£
Creditors—			Premises	5,000	
Trade	8,000		*Less* Depreciation	100	
Rent	100				4,900
Wages	200		Plant and Machinery	10,400	
		8,300	*Less* Depreciation	400	
					10,000
Capital Accounts—			Office Furniture	4,000	
E. Williams	8,000		*Less* Depreciation	200	
R. Salt	6,000				3,800
		14,000	Stock		2,000
Current Accounts—	£		Debtors	6,000	
E. Williams			*Less* Bad Debts Provision	300	
Share of Profit	3,150				5,700
Interest on Capital	400		Cash at Bank		2,000
Salary	400		Cash in Hand		100
		3,950	Amounts prepaid—		
Less Drawings	600		Rates	50	
Interest on Drawings	30		Advertising	100	
		630			150
		3,320			
R. Salt					
Share of Profit	3,150				
Interest on Capital	300				
		3,450			
Less Drawings	400				
Interest on Drawings	20				
		420			
		3,030			
		28,650			28,650

The current accounts of E. Williams and R. Salt would appear in their private ledger as follows—

Dr. E. WILLIAMS CURRENT ACCOUNT *Cr.*

1952			£	1952			£
Dec. 31	To Drawings		600	Dec. 31	By Share of Profit		3,150
	Interest on Drawings		30		Interest on Capital		400
	Balance	c/d	3,320		Salary		400
			3,950				3,950
				1953			
				Jan. 1	By Balance	b/d	3,320

Dr. R. SALT CURRENT ACCOUNT *Cr.*

1952			£	1952			£
Dec. 31	To Drawings		400	Dec. 31	By Share of Profit		3,150
	Interest on Drawings		20		Interest on Capital		300
	Balance	c/d	3,030				
			3,450				3,450
				1953			
				Jan. 1	By Balance	b/d	3,030

The capital accounts of the partners will not have been disturbed, and will be used to record only alterations of capital.

It will be seen that keeping a capital account and a current account is far more convenient and efficient than keeping one omnibus account.

EXERCISE XVI

1. Steel and Gold are in business as timber merchants. They share profits and losses equally. From the following trial balance, extracted from their books on 31st March, 1951, prepare trading and profit and loss accounts for the year and a balance sheet as on that date.

The stock on 31st March, 1951, was valued at £3,404.

The cost of electric power is to be charged in ascertaining the gross profit.

	Dr.	*Cr.*
	£	£
Capitals (Fixed)—		
Steel		5,000
Gold		5,000
Carried forward	—	10,000

	Dr. £	Cr. £
Brought forward	—	10,000
Current Account balances, 1st April, 1950—		
Steel		795
Gold	77	
Drawings during year—		
Steel	400	
Gold	300	
Stock, 1st April, 1950	5,798	
Office Salaries	350	
Discount		83
General Expenses	692	
Sales		6,560
Carriage Inward	56	
Purchases	2,331	
Returns Outward		161
Returns Inward	222	
Wages (Timber Sawing)	564	
Electricity: Power	98	
Advertising	370	
Sundry Debtors	1,527	
Sundry Creditors		1,230
Freehold Premises	3,500	
Repairs to Premises	215	
Plant and Machinery	2,000	
Cash in Hand	17	
Cash at Bank	312	
	18,829	18,829

(*R.S.A.*)

2. P. Evans and C. Shelton are trading in partnership, sharing profits equally. The following trial balance was extracted from their books as on 31st December, 1951—

	Dr. £	Cr. £
P. Evans—		
Capital, 31st December, 1950		2,800
Current Account, 31st December, 1950		92
Drawings during year	750	
C. Shelton—		
Capital, 31st December, 1950		2,400
Current Account, 31st December, 1950		31
Drawings during year	650	
D. Higgs: Loan		200
D. Higgs: Interest on Loan	10	
Carried forward	1,410	5,523

	Dr.	Cr.
	£	£
Brought forward	1,410	5,523
Furniture and Fittings	450	
Stock, 31st December, 1950	3,760	
Purchases	7,486	
Returns Inward	172	
Sales		10,307
Returns Outward		241
Carriage Outward	71	
Carriage Inward	112	
Discounts		68
Sundry Debtors	874	
Bad Debts	33	
Sundry Creditors		407
Salaries and Wages	927	
Rent, Rates and Heating	512	
Postage and Stationery	96	
Sundry Trade Expenses	208	
Cash at Bank	422	
Cash in Hand	13	
	16,546	16,546

Stock on hand on 31st December, 1951, was valued at £4,209. Prepare the firm's trading and profit and loss account for the year ended 31st December, 1951, and balance sheet as on that date.

3. Give entries in the journal proper to record the following in the books of R. and S. Fisher, a partnership—

(*a*) Allowing interest at 4 per cent per annum for one year on the partners' capitals, R. having invested £5,000 and S. £3,000.

(*b*) The purchase on credit from R. Riches of land and buildings for £3,500.

(*c*) The correction of £50 expended on wages but charged to salaries account.

4. Brown and Green are in partnership. They have fixed capital accounts (Brown £5,000 and Green £3,000) and share profits equally. On 1st January, 1951, Brown's current account showed a credit balance of £300; there was no balance on Green's current account. Prepare their current accounts for the year 1951, from the foregoing information and the following particulars—

(*a*) Interest is to be credited to the partners at 4 per cent per annum on their capitals but is not chargeable on drawings.

(*b*) Green is to be credited with a salary of £200 for the year.

(*c*) The net profit for the year was £2,920 before charging the above interest and salary.

(*d*) Drawings during the year were—Brown £1,200, Green £1,100.

5. Palmer and Pye are partners in a garage business. They share profits and losses: Palmer, three-fifths; Pye, two-fifths.

Prepare their trading and profit and loss accounts for the year ended 31st December, 1951, with a balance sheet at that date from the following trial balance.

The stock at 31st December, 1951, was valued at £2,621.

TRIAL BALANCE—31ST DECEMBER, 1951

	Dr. £	*Cr.* £
Fixed Capita Accounts—		
Palmer		3,300
Pye		2,200
Current Accounts, 1st December, 1951—		
Palmer		182
Pye	230	
Drawings during year—		
Palmer	1,582	
Pye	912	
Freehold Property	1,500	
Stock, 1st December, 1951	1,939	
Sundry Debtors	1,413	
Sundry Creditors		1,324
Sale of Motor Cars		6,430
Sale of Petrol, Oils, etc.		2,948
Charges for Repairs to Cars		989
Plant and Machinery	750	
Vans and Breakdown Lorry	925	
Advertising	75	
Wages—		
Works	2,100	
Offices	412	
Electric Power (Works)	427	
Electricity (Office)	48	
Purchases	4,307	
Office Expenses	156	
Insurance	89	
Cash at Bank	508	
	17,373	17,373

6. P. Green and Q. Brown are carrying on business in partnership as tailors.

Record in the form of entries in the journal proper the following transactions—

(*a*) 9th September, 1951. Each of the partners cashed a cheque for £10 drawn on the firm's account, keeping the cash to pay private expenses.

(*b*) 10th September, 1951. Brown took delivery of a sports jacket made for him by the firm's employees and invoiced to him at £9 10s. Of this sum £5 5s. represented the cost of materials used and £4 5s. wages.

(*c*) 11th September, 1951. The firm bought on credit from White and Co., a new sewing machine, invoiced at £22 10s. subject to 10 per cent trade discount.

(*d*) 12th September, 1951. It was decided to write off as bad the balances standing in the firm's books to the debit of R. Grey, £7 17s. 6d., and I. Black, £28 5s. 3d., both these customers having been declared bankrupt.

7. Evans and Taylor are in partnership as tobacconists and newsagents. Record in the form of entries in the "journal proper" the following transactions—

Oct. 9. The firm purchased for £12 a portable typewriter belonging to Evans. (Cash was *not* to be paid for this.)

Oct. 12. A credit note was received from Jones & Co. giving full allowance for 2 lb. tobacco returned as mouldy. The invoice price of this tobacco was £1 10s. 8d. per lb. less 15 per cent trade discount.

Oct. 13. Taylor took from stock cigarettes valued at 7s. 9d. (at cost) for his personal use (not paying cash).

Oct. 15. An amount of £1 6s. 3d. due from Brown for periodicals supplied was written off as a bad debt.

8. On 1st January, 1951, A. Delves and B. Hill commenced business as manufacturers, and agreed to share profits and losses, A Delves two-thirds and B. Hill one-third. The trial balance extracted from their books on 31st December, 1951, was as follows—

	Dr. £	*Cr.* £
Capital—		
A. Delves		5,000
B. Hill		3,000
Current Accounts—		
A. Delves		166
B. Hill	150	
Freehold Premises	2,000	
Plant and Machinery	2,500	
Goodwill	500	
Debtors and Creditors	2,010	1,304
Purchases and Sales	3,801	6,128
Returns Outward		189
Carriage on Purchases	127	
Carriage on Sales	202	
Stock, 1st January, 1951	2,148	
Manufacturing Wages	550	
Carried forward	13,988	15,787

	Dr. £	Cr. £
Brought forward	13,988	15,787
Rent		60
Salaries and Commission	695	
Rates and Insurance	143	
Advertising	68	
General Expenses	258	
Bad Debts	89	
Depreciation	350	
Bank	256	
	15,847	15,847

On 31st December, 1951, the value of Stock on Hand was estimated at £2,654. You are required to prepare trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as on that date. (*R.S.A.*)

9. At 31st December, 1951, the following trial balance was extracted from the books of Brown and Jones—

	Dr. £	Cr. £
Capital Accounts—		
Brown		3,800
Jones		3,200
Current Accounts (Drawings)—		
Brown	100	
Jones	105	
Plant and Machinery	1,457	
Debtors and Creditors	3,600	1,763
Purchases	3,165	
Sales		5,827
Returns Inward	65	
Discount		10
Office Expenses	410	
Carriage Inward	278	
Wages	2,016	
Rent and Insurance	269	
Loan Account (W. Smith)		375
Stock, 1st January, 1951	1,260	
Cash at Bank	2,000	
Cash in Hand	250	
	14,975	14,975

Prepare trading account, profit and loss account and balance sheet, taking into consideration—

(*a*) Stock 31st December, 1951, was valued at £2,400.

(*b*) £30 rent was owing.

(*c*) £100 is to be written off plant and machinery as depreciation.
(*d*) Allow 5 per cent interest on capital.
(*e*) Profits are to be divided equally.

10. A, B and C are partners in a retail business. Give the journal entries necessary to record the following matters on closing the books as on 31st December, 1951, the end of the year of account—

(*a*) The provision of £37 10s. as depreciation on shop fixtures and fittings.

(*b*) The charging to A of £8 representing a week's wages paid by the firm to one of their van drivers, he having been employed by A during that period to drive his private car.

(*c*) The adjustment arising out of the fact that stock valued at £42 (at cost) had been distributed as free samples to the public.

(*d*) The charging of interest for the year at 5 per cent on the partners' capital accounts which were, respectively, A £9,000, B £7,000, and C £4,000. (*R.S.A. adapted*)

11. Brown, Johnson and Green are in partnership. On 1st July, 1950, their capitals, on which interest at the rate of 5 per cent per annum is allowed, were £10,000, £6,000 and £2,000 respectively, and on 1st January, 1951, Johnson brought in a further £1,000.

Green is entitled to a salary of £400 per annum, of which £300 is charged against Brown's share of profits and £100 against Johnson's. The first £2,000 of profit, after charging interest, is divisible between Brown, Johnson and Green in the proportions of 5, 4 and 1 respectively; the next £2,000 in the proportions of 9, 8 and 3; the next £2,000 in the proportions of 8, 7 and 5, and any balance equally between the three.

The profit for the year ended 30th June, 1951, amounted to £6,125, before charging interest.

Prepare a statement showing the division between the partners.
(*R.S.A.*)

12. Long, Short and Broad are in partnership sharing profits and losses in the proportions of 4, 3 and 2. The partnership agreement provides that before arriving at profits a salary of £300 per annum is to be charged for Short's services to the business and that each partner is to be allowed interest at 4 per cent per annum on his capital. Partners' current accounts carry no interest. At 28th February, 1951, the partners' capital was as follows—

Long, £6,500; Short, £2,000; Broad, £2,000.

By arrangement with his partners Long, on 31st August, 1951, withdrew £1,000 of his capital. The profits for the year ended 28th February, 1952, before charging interest on capital and Short's salary, were £3,490.

On 28th February, 1951, Short had an undrawn balance of £263 and during the year his drawings amounted to £675.

Show in the form of an account the division of the profit between the partners in accordance with the partnership agreement, and give Short's current account for the year. (*R.S.A.*)

13. At 31st December, 1951, the following trial balance was extracted from the books of A and B—

	Dr. £	*Cr.* £
Capital Accounts—		
A		10,000
B		8,000
Current Accounts—		
A		1,000
B		800
Drawings—		
A	500	
B	400	
Premises	12,000	
Fixtures and Fittings	1,000	
Debtors and Creditors	4,000	6,000
Discounts	300	400
Bad Debts	300	
Advertising	200	
Carriage Inward	100	
Carriage Outward	200	
Wages	2,000	
Salaries	1,000	
Rent	200	
Rent owing		100
Rates	100	
Rates prepaid	20	
Premises—Depreciation	200	
Purchases and Sales	4,000	6,120
Returns Inward and Outward	400	600
Stock, 1st January, 1951	4,000	
Cash at Bank	2,000	
Cash in Hand	100	
	33,020	33,020

Prepare trading account, profit and loss account, and balance sheet, taking into consideration—

(*a*) Profits and losses shared A two-thirds, B one-third.

(*b*) Credit B with £400 salary.

(*c*) Allow 5 per cent interest on capital and charge 5 per cent interest on drawings.

(*d*) Depreciate fixtures and fittings by 5 per cent.

(*e*) Advertising prepaid £100.

(*f*) Salaries owing £200.

(*g*) Stock 31st December, 1951, £5,000.

14. At 31st December, 1951, the following trial balance was extracted from the books of North and South. Prepare trading account, profit and loss account, and balance sheet after taking into account the following adjustments—

(*a*) Share profit North and South as three is to two.
(*b*) 5 per cent interest on capital and drawings.
(*c*) Salaries owing £200.
(*d*) Increase bad debts reserve to 5 per cent of debtors.
(*e*) Advertising prepaid £100.
(*f*) Postage stamps stolen £10.
(*g*) Depreciation—Land and buildings 2 per cent; Motor lorries 5 per cent.
(*h*) Stock on 31st December, 1951, £18,000.

	Dr. £	*Cr.* £
Capital Accounts—		
North		20,000
South		15,000
Drawings—		
North	2,000	
South	1,000	
Land and Buildings	5,000	
Office Furniture	2,000	
Motor Lorries	5,000	
Debtors and Creditors	10,000	8,000
Discount Allowed	500	
Wages	2,000	
Wages owing		400
Salaries	1,000	
Insurance	500	
Insurance prepaid	100	
Bad Debts	400	
Bad Debts Reserve		400
Office Cleaning	200	
Postage and Stationery	100	
Carriage Inward	500	
Carriage Outward	400	
Bank Charges	100	
Advertising	600	
Depreciation of office furniture	500	
Purchases and Sales	16,000	15,900
Returns Inward and Outward	600	1,000
Stock, 1st January, 1951	10,000	
Cash at Bank	2,000	
Cash in Hand	200	
	60,700	60,700

15. The following trial balance was extracted from the books of X, Y and Z at 31st December, 1951—

	Dr. £	*Cr.* £
Capital Accounts—		
X		20,000
Y		18,000
Z		15,000
Drawings—		
X	5,000	
Y	3,000	
Z	1,000	
Premises	12,000	
Plant and Machinery	20,000	
Office Furniture	2,000	
Debtors and Creditors	8,000	10,000
Discounts	1,000	800
Wages	5,000	
Wages owing		200
Salaries	2,000	
Carriage Inward	200	
Advertising	400	
Advertising prepaid	100	
Rent	400	
Rates	200	
Bad Debts	400	
Bad Debts Reserve		600
Carriage Outward	200	
Postage and Stationery	100	
Purchases and Sales	8,000	10,800
Returns Inward and Outward	400	600
Stock, 1st January, 1951	4,000	
Bank Deposit Account	2,000	
Bank Current Account	500	
Cash in Hand	100	
	76,000	76,000

Prepare trading account, profit and loss account, and balance sheet, taking into consideration the following—

(*a*) Stock on 31st December, £10,000.

(*b*) Share profits in proportions X three, Y two, and Z one.

(*c*) Allow 5 per cent interest on capital and charge 5 per cent interest on drawings. Assume that drawings were made in three separate instalments, 31st March, 30th June, and 30th September.

(*d*) Credit Z with £1,000 salary, £500 to be paid by the firm, £300 by X, and £200 by Y.

(*e*) Rent owing £200.

(*f*) Salaries owing £100.

(*g*) Rates prepaid, £100.

(*h*) Depreciation—
Premises 2 per cent.
Plant and Machinery 10 per cent.
Office furniture 5 per cent.

(*i*) Since the compilation of the trial balance £10 has been taken from the cash till.

(*j*) Increase bad debts reserve to £1,000.

16. The following trial balance was extracted from the books of Copper, Iron and Steel at 31st December, 1951—

	Dr. £	*Cr.* £
Capital Accounts—		
Copper		10,000
Iron		8,000
Steel		6,000
Drawings—		
Copper	1,000	
Iron	600	
Steel	400	
Premises	5,000	
Fixtures and Fittings	2,000	
Motor Lorries	2,000	
Debtors and Creditors	8,000	10,000
Discount	100	200
Wages	2,000	
Wages owing		100
Salaries	600	
Advertising	400	
Rates	150	
Rates prepaid	50	
Rent	200	
Depreciation of Furniture and Fittings	200	
Bad Debts	100	
Bad Debts Reserve		400
Carriage Inward	200	
Carriage Outward	100	
Returns Inward and Outward	400	600
Purchases and Sales	12,000	6,400
Stock, 1st January, 1951	4,000	
Cash at Bank	2,000	
Cash in Hand	200	
	41,700	41,700

After taking into account the following adjustments prepare trading account, profit and loss account and balance sheet as on the 31st December, 1951—

(*a*) 5 per cent interest on capital and drawings, from 1st January, 1951.

(*b*) Credit Steel with salary £500.

(*c*) Write off £400 of debtors as bad debts.
(*d*) Increase bad debts reserve to £600.
(*e*) Create a reserve on debtors for discount of 2½ per cent.
(*f*) Create a reserve on creditors for discount of 2½ per cent.
(*g*) Copper and Iron to pay Steel's salary in proportion two to one.
(*h*) Depreciate—

Premises 2 per cent.
Motor Lorries 20 per cent.

(*i*) Salaries owing £200.
(*j*) Advertising prepaid £100.
(*k*) £100 of goods returned by customers.
(*l*) Bank Charges £10.
(*m*) Stock 31st December, 1951, £11,000.

17. E. Williams and R. Salts are in partnership on the following terms—

(*a*) Interest at the rate of 5 per cent per annum is allowed on partners' capital, but no interest is charged on drawings.

(*b*) E. Williams is entitled to have a salary of £400 per annum, credited to him at the close of each year.

(*c*) Profits, after providing for the above, are shared as follows: E. Williams two-thirds, R. Salts one-third.

The following balances were extracted from the books of the firm as on 31st December, 1951, before making the above adjustments—

	£
Capital Accounts, 31st December, 1950—	
E. Williams	6,000
R. Salts	3,460
Stock, 31st December, 1950	5,876
Fixtures and Fittings	1,250
Sales	34,235
Purchases	21,238
Sales Returns	1,652
Returns Outward	1,110
Rates—Warehouse	131
Rates—Office	92
Lighting and Heating—Warehouse	410
Lighting and Heating—Office	56
Office Salaries	510
Carriage Inward	403
Carriage Outward	875
Bad Debts Reserve, 31st December, 1950	772
Debtors	6,878
Creditors	2,284
Cash at Bank, No. 1 Account	476
Cash in Hand	23
Horses	524
Vans	685

	£
Travellers' Salaries, Commission and Expenses	1,618
Warehouse Expenses	162
Warehouse Wages	3,432
Postage, Stationery and Telephone	188
Discount (Debit Balance)	417
Advertising	1,565
Bank Overdraft on No. 2 Account	3,000
Drawings E. Williams	1,600
Drawings R. Salts	800

You are required to prepare trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as on that date. In preparing these accounts the following information must be taken into consideration—

(*a*) £878 is to be written off sundry debtors as bad.
(*b*) Office rent due but not paid £100.
(*c*) Warehouse rates paid in advance £31.
(*d*) The following valuations were made at 31st December, 1950: Stock-in-trade £7,279; Horses £478.
(*e*) Advertising cards unused £565.
(*f*) Depreciate fixtures by 10 per cent and vans by 20 per cent.
(*g*) Make bad debts reserve equal to 5 per cent of sundry debtors.

(*E.M.E.U. II*)

18. The following trial balance of Smith, Vizard and Jack was extracted from the books of the firm as at 31st December, 1951.

	Dr. £	*Cr.* £
Capital Accounts—		
Smith		10,000
Vizard		8,000
Jack		6,000
Current Accounts—		
Smith	1,000	
Vizard	800	
Jack	600	
Goodwill	5,000	
Premises	8,000	
Plant and Machinery	10,000	
Fixtures and Fittings	1,000	
Debtors and Creditors	8,000	6,000
Discount	400	
Salaries	2,000	
Advertising	500	
Rent	400	
Rates	300	
Interest Received on bank balance		100
Carried forward	38,000	30,100

	Dr. £	Cr. £
Brought forward	38,000	30,100
Carriage Inward	400	
Carriage Outward	300	
Bad Debts	200	
Returns Inward and Outward	600	700
Purchases and Sales	8,000	26,100
Stock, 1st January, 1951	4,000	
Cash at Bank	5,000	
Cash in Hand	400	
	56,900	56,900

Prepare trading and profit and loss accounts for the year ended 31st December, and a balance sheet as on that date, taking into consideration the following adjustments—

(*a*) Allow 5 per cent interest on capital, and charge 5 per cent interest on drawings.

(*b*) Share profits in the proportion 3 : 2 : 1, Smith : Vizard : Jack.

(*c*) Rent owing £200.

(*d*) Rates paid in advance £100.

(*e*) Advertising posters unused £100.

(*f*) £200 paid to creditors plus £300 received from debtors, after completion of trial balance.

(*g*) A debtor, owing £300, goes bankrupt and pays 10s. in the £. No entries made.

(*h*) A creditor to whom £100 is owing cancels debt on account of damaged goods. No entries made.

(*i*) Depreciation—

Premises 2 per cent.
Plant and Machinery 10 per cent.
Fixtures and Fittings 5 per cent.

(*j*) Stock 31st December, 1951—*Nil.*

19. From the following trial balance, extracted from the books of Red, White and Blue as at 31st December, 1951, prepare trading and profit and loss accounts for the year and a trial balance as on that date—

	Dr. £	Cr. £
Capital Accounts—		
Red		10,000
White		8,000
Blue		6,000
Carried forward	—	24,000

	Dr. £	Cr. £
Brought forward	—	24,000
Current Accounts—		
Red		1,000
White		600
Blue		600
Freehold Premises	10,000	
Plant and Machinery	20,000	
Office Furniture	4,000	
Motor Lorries	6,000	
Debtors and Creditors	6,000	10,000
Discount		400
Carriage Outward	600	
Carriage Inward	1,000	
Salaries	4,000	
Advertising	200	
Rent	400	
Rates	200	
Bad Debts	100	
Money stolen from office	10	
Postage	4	
Purchases and Sales	8,400	26,714
Returns Inward	500	
Returns Outward		200
Stock	4,000	
Bank Overdraft		2,000
Cash in Hand	100	
	65,514	65,514

Adjustments are necessary in respect of the following—

(*a*) Rent owing £100.
(*b*) Rates paid in advance £100.
(*c*) Advertising posters unused £50.
(*d*) Salaries owing £200.
(*e*) Depreciation—

Plant and Machinery 10 per cent.
Office Furniture 5 per cent.
Motor Lorries 20 per cent.

(*f*) The £10 previously thought stolen has been found.
(*g*) Partners to receive 5 per cent interest on capital and to share profits and losses equally.
(*h*) Stock on 31st December, 1951—*Nil.*

20. The following trial balance was extracted from the books of North, South, East and West, as on 31st December, 1951. Prepare trading account and profit and loss account for the year ended 31st

December, 1951, and a balance sheet as at that date, taking into account the adjustments given below—

	Dr. £	*Cr.* £
Capital Accounts—		
North		10,000
South		8,000
East		6,000
West		4,000
Drawings—		
North	2,000	
South	1,000	
East	800	
West	600	
Fixed Assets	20,000	
Debtors and Creditors	10,000	8,000
East, Loan Account		4,000
Discount, Allowed and Received	1,800	800
Rent	400	
Rent owing		100
Rates	250	
Rates prepaid	50	
Advertising	200	
Bank Charges	100	
Delivery Expenses	200	
Carriage Inward	100	
Wages	2,000	
Salaries	1,000	
Bad Debts	400	
Bad Debts Reserve		700
Office Expenses	400	
Partnership Salaries—		
East	400	
West	500	
Stock, 1st January, 1951	8,000	
Purchases and Sales	4,000	22,600
Cash at Bank	10,000	
	64,200	64,200

Adjustments are necessary as follows—

(*a*) Credit North with a salary of £1,000, and South with £800.
(*b*) Allow 5 per cent interest on capital.
(*c*) Charge 5 per cent interest on drawings.
(*d*) Advertising prepaid £100.
(*e*) Wages owing £400.
(*f*) Reduce bad debts reserve to £500.
(*g*) Reserve 2½ per cent for discount on debtors and creditors.
(*h*) Share profits equally.
(*i*) Stock on 31st December valued at £1,000.
(*j*) Salaries owing £200.

21. Richards and Harris are in partnership, sharing profits in the proportion of 3 to 2. On 31st December, 1950, the assets owned by the firm, less the liabilities, are valued at £3,143 and on 31st December, 1951, at £3,373.

During the year 1951, Richards has drawn £1,400 in cash and taken goods valued at £75, and Harris has drawn £1,200 in cash, while Jones (a friend of Richards) has lent the firm £500 which has not yet been repaid. Harris at the same time brought in £200 as additional capital, which he borrowed privately from Smith.

Ascertain the firm's profit for the year and the amount by which each partner's capital has increased or decreased. (*R.S.A.*)

22. The following is the trial balance extracted from the books of Jones & Co., as on 28th February, 1952—

	Dr. £	*Cr.* £
Jones—		
Capital, 28th February, 1951		6,000
Current Account, 28th February, 1951		319
Drawings	1,500	
Smith—		
Capital, 28th February, 1952		4,000
Capital added, 31st May, 1951		1,000
Current Account, 28th February, 1951	104	
Drawings	1,000	
Brown—		
Capital, 28th February, 1951		2,000
Current Account, 28th February, 1951		54
Drawings	480	
Goodwill	1,500	
Stock, 28th February, 1951	6,374	
Purchases and Sales	22,503	32,473
Debtors and Creditors	3,451	2,372
Carriage Inward	112	
Carriage Outward	317	
Advertising	1,436	
Wages and Salaries	3,545	
Discount		117
Bad Debts	380	
Bills Receivable	2,500	
Furniture and Fittings	620	
Rent, Rates and Insurance	1,761	
Trade and Office Expenses	976	
Bank Overdraft		246
Cash in Hand	22	
	48,581	48,581

Interest is allowed on capital accounts (but not on current accounts or drawings) at the rate of 6 per cent per annum.

Brown is entitled to a partnership salary (included in his drawings) of £200 per annum, and the balance of profit is shared between the partners in the order named in the proportion of 6, 4 and 1.

Draw up the firm's profit and loss account for the year ended 28th February, 1952, providing 5 per cent depreciation on furniture and fittings and writing £250 off goodwill; also prepare the balance sheet as on that date. The stock in hand on 28th February, 1952, was valued at £8,458. (*R.S.A. II*)

23. P and Q are partners sharing profits in the proportion 3 : 2 respectively. From the undermentioned trial balance and notes you are required to prepare their trading and profit and loss accounts for the year 1951 and balance sheet as at 31st December, 1951.

TRIAL BALANCE—31ST DECEMBER, 1951

	Dr. £	*Cr.* £
Capital Account—		
P		5,000
Q		4,000
Purchases	10,800	
Trade Utensils	2,000	
Returns Inward and Outward	500	300
Rates	240	
Stock, 1st January, 1951	3,000	
Goodwill	5,000	
Trade Debtors	1,775	
Discounts	180	150
Bank Balance		970
Drawings—		
P	1,000	
Q (including salary)	800	
General Expenses	320	
Sales		16,000
Staff Salaries	1,000	
Rent	450	
Cash in Hand	15	
Travellers' Commissions	450	
Trade Creditors		1,110
	27,530	27,530

Notes—

(*a*) Allow interest on capitals at 5 per cent per annum.
(*b*) Depreciate trade utensils £100.
(*c*) Rates paid in advance £60.
(*d*) Stock, 31st December, 1951, £2,500.
(*e*) Make provision for bad debts £250.
(*f*) Provide a partnership salary for Q, £250.
(*g*) Rent due but unpaid £150.
(*h*) Travellers' commissions accrued due £100. (*R.S.A. II*)

24. What is meant by a "Current Account" as applied to the partners in a firm?

A. R. Goodwin was a partner in Goodwin & Sons. His capital in the business was £6,000, on which he was entitled to 6 per cent interest. He was entitled to be credited with £250 at the close of each year as a partnership salary. His share of the profits, for the year ended 31st December, 1951, was £1,264, and his drawings, during that year, amounted to £768, upon which he was not chargeable with interest.

Prepare Goodwin's current account as on 31st December, 1951.

(*R.S.A.*)

CHAPTER XVII

ADMITTING A NEW PARTNER

THE need occasionally arises for an additional partner to be taken into an established business. The reason may be to obtain extra capital or special ability, or to ease the burden borne by the existing partners. But whatever the reason may be, the problem will arise of the new agreement to be made as the result of the admission of a new partner.

The success of the business will have been attained by the efforts and ability of the partners already in the firm and by those of their predecessors, if any. The evidence of this success will be the number of customers dealing regularly with the firm and the rate of increase in that number, and will represent the goodwill of the business.

Such goodwill is an asset upon which the profits of the business is dependent, and it is natural that a new partner should be called upon to pay for the share in its benefits which the existing partners will forgo in his favour. This payment on the part of a new partner is termed a Premium for Goodwill.

An alternative arrangement would be to credit the capital accounts of the original partners with a sum in respect of goodwill and debit a goodwill account, in which case a separate cash payment for goodwill would not arise. Under such an arrangement, the original partners would benefit from an increase in their capital equivalent to the amount of the asset goodwill, while the capital brought in by the new partner would pay for his agreed share in the firm's assets including, of course, goodwill. Furthermore, if the partnership agreement provided for interest to be allowed on capital, the original partners would receive increased benefit from this source.

EXAMPLE. A and B are in partnership, sharing profits and losses equally. Their capitals are £10,000 and £5,000 respectively. On 1st January, 1951, they decided to admit C into partnership on his bringing into the firm £10,000 as capital

and £5,000 as premium for goodwill, which was to remain in the business. The following are the necessary entries—

Dr. CASH BOOK (BANK COLUMNS ONLY) *Cr.*

1951 Jan. 1	To Capital, C. . .	£ 10,000			
	Capital, A . .	2,500			
	Capital, B . .	2,500			

LEDGER

Dr. CAPITAL, A *Cr.*

			1951 Jan. 1	By Balance . . .	£ 10,000
				Cash . . .	2,500

Dr. CAPITAL, B *Cr.*

			1951 Jan. 1	By Balance . . .	£ 5,000
				Cash . . .	2,500

Dr. CAPITAL, C *Cr.*

			1951 Jan. 1	By Cash . . .	£ 10,000

If it had been agreed that the existing partners were to receive their share of the premium in cash immediately, then the entries would be as follows—

Dr. CASH BOOK (BANK COLUMNS ONLY) *Cr.*

1951 Jan. 1	To Capital, C . .	£ 10,000	1951 Jan. 1	By Current Account, A .	£ 2,500
	Capital, A . .	2,500		Current Account, B .	2,500
	Capital, B . .	2,500			

LEDGER

Dr. CAPITAL, A *Cr.*

			1951 Jan. 1	By Balance . . .	£ 10,000

Dr. CAPITAL, B *Cr.*

			1951 Jan. 1	By Balance . . .	£ 5,000

Dr.	CAPITAL, C				*Cr.*
			1951 Jan. 1	By Cash . . .	£ 10,000

Dr.	CURRENT ACCOUNT, A				*Cr.*
1951 Jan. 1	To Cash . . .	£ 2,500	1951 Jan. 1	By Cash . . .	£ 2,500

Dr.	CURRENT ACCOUNT, B				*Cr.*
1951 Jan. 1	To Cash . . .	£ 2,500	1951 Jan. 1	By Cash . . .	£ 2,500

It need hardly be added that it would be more prudent for C to have the premium shown in the firm's books than for him to pay it direct to the partners as a private transaction.

It may happen that the new partner can provide the money for his capital contribution, but is unable to find further cash for payment of the premium on goodwill. In this case the existing partners would be credited with amounts in respect of goodwill, in the manner already mentioned, and a goodwill account debited.

EXAMPLE. C and D are partners, sharing profits and losses equally, C's capital being £10,000 and D's £5,000. On 1st January, 1952, they agreed to admit E into the partnership. His capital contribution was £10,000, but instead of his having to pay a cash premium, it was arranged to raise a goodwill account of £5,000, to be divided between C and D. The entries necessary are—

JOURNAL

			£	£
1952 Jan. 1	Goodwill . . . . . *Dr.*		5,000	
	To Capital, C			2,500
	Capital, D			2,500
	Being valuation of goodwill on admission of E into partnership.			

Dr.	CASH BOOK (BANK COLUMNS ONLY)				*Cr.*
1952 Jan. 1	To Capital, E . .	£ 10,000			

LEDGER

Dr.	CAPITAL, C			*Cr.*
		1952 Jan. 1	By Balance . . .	£ 10,000
			Goodwill . . .	2,500

Dr.	CAPITAL, D			*Cr.*
		1952 Jan. 1	By Balance . . .	£ 5,000
			Goodwill . . .	2,500

Dr.	CAPITAL, E			*Cr.*
		1952 Jan. 1	By Cash . . .	£ 10,000

Dr.	GOODWILL			*Cr.*
1952 Jan. 1	By Capital, C and D .	£ 5,000		

By this arrangement, C and D would each receive interest on a further £2,500 of capital, and on dissolution of the partnership would be entitled to a correspondingly greater proportion of the proceeds of realization.

It would, of course, be possible for C and D to receive their shares of goodwill in cash, in which case the transaction would be passed through their current accounts; the firm's working capital, however, would be reduced.

Note that a goodwill account is opened only in those cases where the new partner does not pay separately for goodwill.

Goodwill has to be shown on the assets side of the balance sheet, and if the assets are shown in order of permanency, it will of course appear at the top of the column.

Amalgamation of Businesses

The amalgamation of two sole traders to form a partnership is not an uncommon arrangement, and offers scope for increased profits by way of reduced expenses, reduction of competition, and possible increase of aggregate turnover.

When such an arrangement has been decided upon, a date should be fixed well in advance whereon the actual amalgamation is to become effective. Balance sheets of the two

concerns must be prepared as at that date, with valuations of each set of assets and liabilities at agreed figures. Amalgamation of these balance sheets into one comprehensive document will provide the opening entries in the books of the new firm.

EXAMPLE. Two retail tailors, N. Stubbs and E. Griffen decided to amalgamate their businesses on 1st January, 1952, on which date their balance sheets were as follows—

BALANCE SHEET OF N. STUBBS AS AT 1ST JANUARY, 1952

Liabilities	£	*Assets*	£
Creditors	100	Premises	1,000
Capital	1,900	Fixtures and Fittings	500
		Stock	200
		Debtors	50
		Cash at Bank	230
		Cash in Hand	20
	2,000		2,000

BALANCE SHEET OF E. GRIFFIN AS AT 1ST JANUARY, 1952

Liabilities	£	*Assets*	£
Creditors	600	Premises	1,500
Capital	2,400	Fixtures and Fittings	400
		Stock	300
		Debtors	400
		Cash at Bank	300
		Cash in Hand	100
	3,000		3,000

BALANCE SHEET OF STUBBS AND GRIFFIN AS AT 1ST JANUARY, 1952

Liabilities	£	£	*Assets*	£
Creditors		700	Premises	2,500
Capital—			Fixtures and Fittings	900
N. Stubbs	1,900		Stock	500
E. Griffin	2,400		Debtors	450
		4,300	Cash at Bank	530
			Cash in Hand	120
		5,000		5,000

JOURNAL OF STUBBS AND GRIFFIN (Opening Entries)

1952			£	£
Jan. 1	Cash in Hand	Dr.	120	
	Cash at Bank		530	
	Debtors		450	
	Stock		500	
	Fixtures and Fittings		900	
	Premises		2,500	
	To Creditors			700
	Capital, N. Stubbs			1,900
	Capital, E. Griffin			2,400
	Being assets, liabilities and capital at this date.			
			5,000	5,000

Revaluation of Assets

On the admission of a new partner, or on the amalgamation of two businesses, it is obvious that the interested parties must all agree on the valuation of the assets and the assessment of the liabilities.

This may be simply a matter of agreeing to the figures as they appear in the books of account, without amendment.

Again, it may be a matter for negotiation, and in some cases it may be advisable or even necessary to seek professional assistance in order to arrive at these values.

It is quite possible, therefore, that adjustments may be necessary, and these are effected by journal entries. Increases in value are debited in the asset account, and decreases in value credited, and the net difference is debited or credited in the capital account.

Example. T. Jones and F. Walters are two newsagents, trading independently, and they decide to amalgamate. The new firm is to take over all the assets and liabilities at the figures shown in the balance sheets, with the exception of Jones's goodwill, which is to be written down by £400, and Walters's stock, which is to be written down by £600. The respective balance sheets as at 31st December, 1951, were as shown on p. 225.

The journal of the new firm, showing the opening entries for posting to the new set of books, provides a good example of the usefulness of the journal.

BALANCE SHEET OF T. JONES AS AT 31ST DECEMBER, 1951

Liabilities	£	*Assets*	£
Creditors	2,000	Goodwill	4,000
Capital	21,100	Freehold Property	3,000
		Fixtures and Fittings	600
		Delivery Vans	500
		Stock	8,000
		Debtors	6,000
		Cash at Bank	1,000
	23,100		23,100

BALANCE SHEET OF F. WALTERS AS AT 31ST DECEMBER, 1951

Liabilities	£	*Assets*	£
Creditors	3,000	Goodwill	2,000
Capital	12,300	Freehold Property	2,000
		Fixtures and Fittings	400
		Delivery Vans	400
		Stock	6,000
		Debtors	4,000
		Cash at Bank	500
	15,300		15,300

JOURNAL OF JONES AND WALTERS
(SHOWING OPENING ENTRIES)

1952			£	£
Jan. 1	Cash at Bank	*Dr.*	1,500	
	Debtors		10,000	
	Stock		13,400	
	Delivery Vans		900	
	Fixtures and Fittings		1,000	
	Freehold Property		5,000	
	Goodwill		5,600	
	To Creditors			5,000
	Capital, T. Jones			20,700
	Capital, F. Walters			11,700
	Being assets, liabilities and capital at this date.			
			37,400	37,400

EXERCISE XVII

1. J. Last, carrying on business under the name of Last & Company as a boot and shoe wholesaler, agrees as on 1st January, 1951, to admit his manager A. Tree as a junior partner on the following terms—

Profits and Losses were to be shared as to three-fourths to Last and one-fourth to Tree.

Tree was to be allowed a partnership salary of £260 per annum.

Last was to be entitled to draw £50 per month on account of profits and Tree £25 per month, in addition to his salary.

No interest was to be charged on drawings but interest was to be allowed on capital at 5 per cent per annum.

A goodwill account was to be opened for £2,000 and a similar amount credited to Last's Capital Account.

Tree being unable to pay in any cash as capital it was agreed that, should his share of profits permit, the sum of £500 per annum was to be transferred from his current account to his capital account at the close of each year until such time as his capital account amounted to £3,000.

On 31st December, 1951, the following trial balance was extracted from the books of the firm—

	Dr.	*Cr.*
	£	£
J. Last—		
Capital Account		6,000
Current Account balance	100	
Drawings	600	
A. Tree—		
Drawings	300	
Goodwill	2,000	
Partnership Salary	260	
Purchases	35,233	
Carriage Inward	462	
Advertising	806	
Salaries and Wages	2,725	
Rent, Rates and Insurance	380	
Gas and Electric Light	31	
Delivery Expenses	1,065	
Motor Vans, 1st January, 1951	300	
Motor Vans purchased during the year	600	
General Expenses	493	
Bad Debts	14	
Sales		47,323
Stock, 1st January, 1951	9,083	
Fixtures and Fittings	250	
Travellers' Salaries and Expenses	1,385	
Sundry Creditors		8,087
Sundry Debtors	7,160	
Cash in Hand	50	
Bank Overdraft		1,887
	63,297	63,297

You are required to prepare trading and profit and loss accounts for the year ended 31st December, 1951, and a balance sheet as on that date.

When preparing the accounts the following matters, for which no entries have been made in the books, are to be taken into consideration—

(*a*) Depreciation to be provided as follows—

Fixtures and fittings—10 per cent per annum.
Motor Vans, old balance—15 per cent per annum.
Motor Vans, new—20 per cent per annum.

(*b*) Stock on hand at 31st December, 1951, was agreed at £8,219.

(*c*) A reserve of 2½ per cent on the sundry debtors is to be made to cover bad and doubtful debts.

(*d*) £23 was due to a traveller for commission for the December quarter.

(*e*) £240 was due to the firm from a certain manufacturer as a bonus on the sales of his boots during 1951.

(*f*) £20 insurance is to be carried forward.

(*g*) A claim of £27 for goods lost in transit has been admitted by the railway but not paid. (*R.S.A. II*)

2. X and Y are independent traders in the same line of business, their respective balance sheets on 31st December, 1951, being as follows—

X Balance Sheet—31st December, 1951

	£		£
Capital	22,400	Goodwill	2,000
Sundry Creditors	2,047	Freehold Property	2,400
		Fixtures and Fittings	530
		Stock	10,854
		Debtors	7,591
		Cash at Bank	1,072
	24,447		24,447

Y Balance Sheet—31st December, 1951

	£		£
Capital	4,660	Fixtures and Fittings	180
Bills Payable	1,200	Stock	5,171
Sundry Creditors	2,318	Debtors	3,146
Bank Overdraft	319		
	8,497		8,497

X and Y decided to amalgamate their business as from 1st January, 1952, the firm taking over all the assets and liabilities at the figures stated except Y's Fixtures and Fittings, which he was to retain and

dispose of, and Y's stock which is to be written down by £280. The goodwill of Y's business was agreed to be valued at £600.

Draw up the opening balance sheet of the partnership. (*R.S.A. II*)

3. Sharp and Blunt are equal partners in an old-established retail business, trading under the name of Sharp & Co. On 1st September, 1951, Rough was admitted as a partner on the terms that he was to take one-fifth of the profits as from that date (for the purpose of ascertaining this, the year's profit was to be apportioned on a time basis), Sharp's share being reduced by a similar amount. Rough on entry paid in cash for his share of the Goodwill, the amount being withdrawn by Sharp on the same day.

The following trial balance was extracted from the firm's books as on 31st December, 1951—

	£	£
Sharp—		
Capital, 31st December, 1950		14,000
„ withdrawn, 30th September, 1951	4,800	
Current Account, 31st December, 1950		312
Drawings during 1951	2,600	
Blunt—		
Capital, 31st December, 1950		8,000
„ withdrawn, 30th September, 1951	1,200	
Current Account, 31st December, 1950		117
Drawings during 1951	3,000	
Rough—		
Capital brought in 30th September, 1951		6,000
Drawings	400	
Goodwill, 31st December, 1950	3,000	
Stock, 31st December, 1950	12,336	
Furniture and Fittings, 31st December, 1950	1,640	
Purchases, *less* Returns	33,208	
Sales, *less* Returns		49,575
Carriage Inward	311	
Carriage Outward	519	
Advertising Suspense, 31st December, 1950	2,000	
Advertising Expenditure during 1951	843	
Salaries and Wages	3,773	
Sundry Debtors and Creditors	16,324	6,946
Rent and Rates	1,574	
Heat, Light and Insurance	472	
Bank Deposit Interest		28
Discount		514
Trade and Office Expenses	751	
Bills Payable and Receivable	1,950	6,200
Bad Debts Reserve, 31st December, 1950		500
Bad Debts written off 1951	522	
Cash at Bank	918	
Cash in Hand	51	
	92,192	92,192

You are required to prepare the firm's trading and profit and loss account for the year ended 31st December, 1951, together with the balance sheet as on that date.

Provision is to be made for the following adjustments—

(*a*) Interest on capital is allowed at the rate of 5 per cent per annum, but no interest is to be credited in respect of current accounts or charged on drawings.

(*b*) 5 per cent depreciation is to be written off furniture and fittings.

(*c*) Stock on 31st December, 1951, was valued at £11,432.

(*d*) The bad debts reserve is to be made up to £600.

(*e*) Half the advertising suspense is to be written off.

(*f*) £232, representing rates in respect of the three months to 31st March, 1952, paid in advance, is to be carried forward. (*R.S.A. II*)

4. A, a sole trader owning an established business, took B into partnership on 1st January, 1951, at which date the goodwill of the business was agreed to be worth £6,000. A's capital (exclusive of goodwill) was £10,000, and B brought in £3,000 as his capital. Interest on capital accounts was to be allowed at 5 per cent and A and B were to divide the remaining profit in the ratio of 2 to 1.

The profit for 1951, before charging interest, was £2,600.

Calculate the division of this sum between A and B on the alternative assumptions that—

(*a*) Goodwill was ignored on B's entering the business.

(*b*) Goodwill was taken into account at its correct value. (*R.S.A. II*)

5. On 31st December, 1951, Farmer & Co., a firm of jewellers (partners A. Farmer and B. Giles, sharing profits in the proportion of 3 to 2), absorbed the business of C. Harris. After charging 5 per cent interest on capital accounts Harris was to receive one-quarter of the firm's profit, the other partners dividing the remainder in the same proportion as before. The firm's books had last been closed as on 30th June, 1951, and no accounts were prepared up to 31st December, but Harris was to share in the full profits of the year to 30th June, 1952, on the basis of his bringing into account the actual profits earned by him for the six months ended 31st December, 1951. This profit was agreed at £547. There was also a provision as to goodwill, as stated in instruction (*a*) below.

The trial balance extracted from the firm's books as on 30th June, 1952, was as follows—

	£	£
Capital Accounts—		
Farmer, 30th June, 1951		20,000
Giles, 30th June, 1951		10,000
Harris, 31st December, 1951		7,000
Goodwill	2,000	
Carried forward	2,000	37,000

	£	£
Brought forward	2,000	37,000
Furniture and Fittings, 30th June, 1951	1,180	
Furniture and Fittings per Harris, 31st December, 1951	720	
Stock, 30th June, 1951	22,155	
Stock per Harris, 31st December, 1951	10,701	
Purchases	25,356	
Carriage Outward	77	
Sales		35,305
Salaries and Wages	1,955	
Current Accounts, 30th June, 1951—		
Farmer		147
Giles		592
Cash Drawings—		
Farmer	3,000	
Giles	2,000	
Harris	750	
Advertising	316	
Bills Receivable and Payable	3,600	12,500
Travellers' Salaries and Commission	1,310	
Rent and Rates	1,675	
Bad Debts	280	
Shop and Trade Expenses	568	
Trade Debtors and Creditors	8,593	3,047
Heat, Light and Insurance	374	
Postage, Stationery and Telephone	142	
Interest and Bill Discounting Charges	53	
Receipts from Repairs		406
Cash at Bank and in Hand	2,192	
	88,997	88,997

You are required to prepare the firm's trading and profit and loss accounts for the year ended 30th June, 1952, and the balance sheet as on that date, making adjustments to deal with the following matters—

(*a*) It had been agreed that before the amalgamation the goodwill account, previously standing in the firm's books at £2,000, should be raised to £5,000. This entry had not been made. It was also agreed at the end of the year of account to write £1,000 off the goodwill.

(*b*) Stock on hand on 30th June, 1952, was valued at £36,827.

(*c*) The trade debtors included £60 for stock taken by Farmer and £40 for stock taken by Harris.

(*d*) One quarter's rent amounting to £250 and travellers' commission amounting to £58 were due and unpaid on 30th June, 1952, and the rates had been paid up to 30th September, 1952, the last payment being £368 for the half year.

(*e*) £525 of the salaries and wages represents the wages of workmen employed for repairing and altering items of jewellery, and shop and

trade expenses includes £59 representing the cost of materials used by these workmen.

(*f*) The furniture is to be depreciated at the rate of 10 per cent per annum. (*R.S.A. II*)

6. A and B are in partnership and make up their accounts to 31st December. They share profits and losses in the proportions of 2 and 1, after charging interest at 4 per cent on their respective capitals of £2,800 and £2,000. On 1st November, 1951, they agree to admit their manager, C, into partnership, and to give him one-seventh of the firm's profits, after charging interest on capital, the arrangement to take effect from the previous 1st January. It was arranged that the new partner's account should be charged with the salary (at the rate of £400 per annum) which he had drawn since 1st January, 1951, and that his future drawings should be at the same rate, any balance of profit being transferred to his capital account until the amount reached £1,000. These arrangements were carried out, and when the accounts for the year ended 31st December, 1951, were prepared, it was found that the profit before charging interest on capital amounted to £4,728.

You are required to show the division of the profit and the current account of C. (*R.S.A. II*)

7. The following was the balance sheet of Fox and Crane (who share profits and losses in the ratio of two-thirds and one-third respectively), on 31st December, 1951—

	£		£
Creditors . . .	2,000	Sundry Assets . . .	10,000
Fox—Capital . . .	5,000		
Crane—Capital . .	3,000		
	10,000		10,000

As on 1st January, 1952, the following adjustments are to be made—

(*a*) The assets are to be written down to a value of £9,280.

(*b*) Fox is then to bring in cash sufficient to make his capital £2,000 greater than Crane's.

(*c*) Thereafter Stork is introduced as a partner and he pays in £2,500 as his capital and £600 to be regarded as his share of goodwill, to be credited to the capital accounts of Fox and Crane. (*Note.* No goodwill account is to be raised.)

You are required to draft the balance sheet of the new firm immediately after these transactions have been completed. (*R.S.A. II*)

8. Foot and Hand are partners, with capitals £5,000 and £4,000 respectively, and sharing profits in the proportion as between

themselves of three-fifths and two-fifths respectively. They prepare accounts annually at 31st December.

On 1st January, 1951, they admit Legge as a partner with a right to a salary of £500 per annum and a one-fifth share of the profits. On 31st December, 1951, they find that Legge's salary has, as yet, been neither charged nor drawn but he remains entitled thereto. Subject to this matter the trading profits are shown by the accounts to be £5,000 for the year.

You are required to show the appropriation account for the year 1951. (*R.S.A. II*)

9. M. Tree was a motor and cycle dealer. On 31st May, 1951, his financial position was as follows: Stock-in trade, £5,315; Sundry Debtors, £520; Cash in Hand, £147; Sundry Creditors, £2,212; Bank overdraft, £1,200.

B. Walls owned a motor repairing business. His financial position on 31st May, 1951, was—Freehold property, £3,000; Plant and Machinery, £1,500; Stock of materials, spare parts, etc., £740; Sundry Debtors, £85; Cash at Bank, £2,110; Sundry Creditors, £3,045.

On that day M. Tree and B. Walls agreed to form a partnership. You are required—

(*a*) To show the capitals of Tree and Walls in the form of journal entries, and

(*b*) To draw up a balance sheet showing the assets and liabilities of the partnership. (The balances on the separate bank accounts were transferred to a new partnership bank account.) (*R.S.A. I*)

10. Black and White are partners sharing profits and losses in the proportions 3 : 2. From the particulars given below produce partners' capital and current accounts and profit and loss appropriation account—

	£
Black—Capital Account	5,000
White—Capital Account	3,000
Profits for year before making any adjustments whatever	7,000
Black—Drawings	2,000
White—Drawings	2,000
A Goodwill account is now to be raised	1,000

Interest on Capitals is to be allowed at the rate of 5 per cent per annum.

Interest is to be charged on drawings at 5 per cent per annum. (Assume all drawings at an average date halfway through the year.) (*R.S.A. II*)

11. Macdonald and Jones were two separate sole traders who agreed to carry on business in partnership as from 1st October, 1951, Macdonald taking three-fifths of the profits and Jones two-fifths.

The assets and liabilities shown by the separate balance sheets on 30th September, 1951, were shown by the following statement—

	Macdonald	*Jones*
	£	£
Motor Lorry	500	
Furniture and Fittings	650	400
Stock	2,520	1,910
Debtors	580	330
Balance at Bank	470	
Sundry Creditors	282	170
Bank Overdraft		140
Loan from Murphy		500

It was agreed that the partnership should take over all the assets and liabilities of both partners, at the figures shown above, except that Macdonald should bring in only £450 worth of his furniture, keeping the rest, and that Jones should pay off his bank overdraft privately.

The firm's profit for the year to 30th September, 1952, was £3,640 and during the year Macdonald had drawn £2,000 and Jones £1,500.

Set out the opening journal entries and the firm's opening balance sheet and ascertain each partner's capital at the end of the year. (The capital accounts are not "fixed.") (*R.S.A.*)

12. C. South and E. Rivers agree to set up in partnership as wholesale and retail traders in china and glass. On 2nd January, 1951, C. South pays £2,000 into a partnership bank account; E. Rivers has no cash but transfers a freehold shop and warehouse valued at £1,800 and stock valued at £1,200 to the partnership.

You are required to record the foregoing items and the following transactions in the proper books of account—

1951

Jan. 9. Drew and cashed cheque for £100 for office purposes.

10. Paid A. Andrews £150 by cheque, for additions to the buildings.
Cash sales (not banked), £22 10s.
Received on credit, from Stoke Workers, Ltd.—
2 doz. dinner services at £5 10s. each.
1½ doz. tea sets at £2 each.
Nine tea sets were faulty and were returned.

11. An order was received from M. Miles for—
6 dinner services at £7 each.
6 doz. glass bowls at 35s. per doz.
The goods were dispatched.
Bought and paid for by cheque a cash desk, counter and shelves, value £234.

12. Cash sales (not banked), £33 15s.

13. Paid Stoke Workers, Ltd., by cheque, the amount due to them, *less* 5 per cent cash discount.

Jan. 16. Sold, on credit, to L. Waters, an assorted lot of china for £185, subject to trade discount of 10 per cent.

Balance the ledger accounts and extract a trial balance as on 18th January, 1951. No trading account, profit and loss account or balance sheet is to be prepared.

13. George Wright and Henry Dobson enter into partnership, upon equal terms, to acquire the business carried on by Amos Atkinson. The business was taken over as at 1st January, 1952, on the basis of the last certified balance sheet, which was as follows—

BALANCE SHEET OF AMOS ATKINSON AS AT 31ST DECEMBER, 1951

Liabilities	£	*Assets*	£
Capital Account—		Freehold Premises	14,200
Amos Atkinson	26,000	Plant and Machinery	8,100
Sundry Creditors	3,400	Furniture and Fittings	600
Reserve for Bad Debts	300	Stock in Trade	4,100
		Sundry Debtors	2,700
	29,700		29,700

The purchase price was agreed at £28,000, and was paid in equal shares by Wright and Dobson direct to Atkinson. A bank account was opened in the name of the firm, into which each partner paid the sum of £1,000. For the purpose of the partnership the assets were revalued and the following reductions in value were made—Plant and Machinery £500, Stock £450, and Furniture and Fittings £200.

A goodwill account is to be raised in the partnership books for the difference between the total purchase price paid and the amended valuation.

You are required to make the journal entries necessary to record the above transactions in the books of Messrs. Wright and Dobson and prepare balance sheet as at the commencement of the new partnership. (*R.S.A. II*)

14. O. Fitzgerald carried on business as a manufacturer of rubber heels and sundries. On 1st January, 1951, he agreed to admit C. Testout as a junior partner on the following terms—

A Goodwill Account of £3,000 was to be opened, and a similar amount credited to Fitzgerald's capital account. Fitzgerald was to draw £40 per month, and Testout £30 per month. No interest was to be charged on drawings, but 5 per cent interest was to be allowed on capital. Testout was to pay in £3,000 in cash as his capital. Testout was to be credited with a salary of £250. Profits were to be shared, as to two-thirds to Fitzgerald, and one-third to Testout.

On 31st December, 1951, the undermentioned trial balance was extracted from the books of the firm—

	Dr. £	*Cr.* £
O. Fitzgerald—		
Capital Account		9,000
Drawings Account	480	
C. Testout—		
Capital Account		3,000
Drawings Account	110	
Goodwill	3,000	
Partnership Salary	250	
Plant and Machinery	2,840	
Loose Tools	520	
Sales		27,580
Sales Returns	108	
Purchases	9,684	
Purchases Returns		312
Machinery Repairs	349	
Stock, 1st January, 1951	3,872	
Bad Debts	221	
Reserve for Bad Debts, 1st January, 1951		400
Carriage Inward	462	
Carriage Outward	524	
Office Salaries	1,948	
Office Expenses	362	
Travellers' Salaries and Commission	1,486	
Factory Power	1,642	
Bills Receivable	325	
Factory Wages	4,894	
Rent and Rates (Factory)	1,278	
Rent and Rates (Office)	163	
Factory Expenses	821	
Insurance (Factory)	248	
Insurance (Office)	29	
Discount Account		84
Cash at Bank	464	
Bank Overdraft		4,000
Sundry Creditors		3,206
Sundry Debtors	9,862	
Office Furniture	240	
Motor Lorry	1,400	
	47,582	47,582

You are required to prepare a factory working account and a profit and loss account for the year ended 31st December, 1951, and a balance sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration—

(*a*) The following depreciations are to be written off—plant and machinery 10 per cent; office furniture 5 per cent; motor lorry 20 per cent; loose tools, 15 per cent.

(*b*) Sundry loose tools were made by the firm's workmen, and wages £92, and purchases £28, are to be transferred from these accounts to loose tools account before calculating the above depreciation.

(*c*) The stock in hand, as on 31st December, 1951, was valued at £4,092.

(*d*) The reserve for bad debts is to be made up to £500.

(*R.S.A.*)

15. Rose and Pink were in partnership sharing profits and losses in the proportions of 3 and 2. As from 1st April, 1951, they agreed to admit their manager (Lilley) as a partner with a one-sixth share of the profits. As Lilley was unable to introduce any cash it was arranged (*a*) that a goodwill account for £3,000 should be raised in the books of the firm and credited to Rose and Pink, and (*b*) that one-half of Lilley's share of the profits should be transferred to his capital account until this amounted to £2,000. The entries relating to the admission of Lilley had not been made in the books when the following trial balance as at 31st March, 1952, was extracted—

	£	£
Capital Accounts—		
Rose		6,000
Pink		3,000
Current Accounts—		
Rose		671
Pink	49	
Purchases	37,124	
Sales		45,691
Sundry Debtors and Creditors	8,640	3,973
Salaries and Wages	1,825	
Heating and Lighting	86	
Telephone and Insurance	59	
Office Expenses	113	
Bad Debts Reserve, 31st March, 1951		325
Bad Debts written off	222	
Van Expenses	190	
Cash in Hand	15	
Rent and Rates	475	
Stock, 31st March, 1951	6,291	
Postage and Stationery	102	
Advertising	433	
Carried forward	55,624	59,660

	£	£
Brought forward	55,624	59,660
Vans	700	
Furniture and Fittings, 31st March, 1951	1,700	
Furniture, additions, 30th September, 1951	200	
Bank Interest	84	
Drawings—		
Rose	934	
Pink	660	
Lilley	259	
Bank Overdraft		501
	60,161	60,161

You are required to prepare the final accounts and balance sheet of the business, and to take into consideration the following matters—

(*a*) Stock on hand on 31st March, 1952, amounted to £5,217.

(*b*) The item "Purchases" includes furniture amounting to £65 bought for Rose's house.

(*c*) The bad debts reserve is to be made up to 5 per cent of the sundry debtors.

(*d*) Depreciation at the rate of 7½ per cent per annum on furniture and fittings and 20 per cent on vans is to be provided for.

(*e*) £340 of the expenditure on advertising relates to a new product; 25 per cent of this amount is, in accordance with an agreement, recoverable from the manufacturer.

(*f*) Interest on capital at the rate of 4 per cent per annum is to be allowed. (*R.S.A. II*)

16. P and Q were sole traders, and as from 1st January, 1952, they agreed to go into partnership, sharing profits equally. As on 31st December, 1951, they each drew up accounts, which showed the following assets and liabilities—

	P	*Q*
	£	£
Freehold Shop	2,500	
Stock	3,097	1,751
Fixtures and Fittings	520	400
Debtors	1,080	640
Cash	426	
Bank Overdraft		112
Trade Creditors	398	241

It was agreed that the partnership should take over all the assets and liabilities at the figures stated, subject to reserves for bad and doubtful debts being raised equal to 5 per cent of the debtors, and

that P should be credited with £1,000 by way of goodwill. Draw up the opening balance sheet of the firm, Q's overdraft having been paid off. (*R.S.A. II*)

17. H. Whiting and C. Morley were in partnership in a retail business, sharing profits in the proportion of 3 to 2.

As on 1st April, 1951, P. Collins was admitted as a partner taking one-sixth of the profits, Whiting and Morley, as between themselves, sharing as before. Collins brought in £3,000 in cash, of which £1,000 was considered as being in payment for his share of the goodwill, and the remainder as his capital.

The following was the trial balance extracted from the books as on 31st March, 1952—

	Dr. £	*Cr.* £
Capital Accounts, 31st March, 1951—		
Whiting		22,000
Morley		8,000
Cash paid in by Collins, 1st April, 1951		3,000
Cash withdrawn by Whiting, 1st April, 1951	2,000	
Current Accounts, 31st March, 1951—		
Whiting		840
Morley		480
Drawings, ordinary—		
Whiting	3,600	
Morley	2,400	
Collins	720	
Special Drawing, Whiting, 30th September, 1951	600	
Purchases	65,334	
Sales		86,649
Returns Inward	973	
Returns Outward		1,152
Trade Debtors and Creditors	8,152	2,303
Bad Debts Reserve, 31st March, 1951		246
Bills Payable		1,750
Carriage Inward	511	
Carriage Outward	636	
Stock, 31st March, 1951	14,156	
Wages and Salaries	5,980	
Furniture and Fittings, 31st March, 1951	3,280	
Furniture and Fittings bought 31st December, 1951	560	
Alterations to Shop	3,500	
Advertising	1,345	
Rent and Rates	3,217	
Heat, Light and Insurance	327	
Postage, Stationery and Telephone	346	
Carried forward	117,637	126,420

	£	£
Brought forward	117,637	126,420
Trade Expenses	609	
Discounts	556	
Legal Expenses	28	
Bad Debts written off	931	
Loan to Mr. X, made 31st December, 1951, carrying interest at 6 per cent per annum	400	
Investment	5,000	
Dividend from same		350
Cash at Bank	1,590	
Cash in Hand	19	
	126,770	126,770

Prepare the firm's trading and profit and loss account for the year ended 31st March, 1952, and balance sheet as on that date, having regard to the following information—

(*a*) Interest is to be allowed on capital and current accounts, and charged on drawings, at the rate of 5 per cent per annum. Interest on ordinary drawings is to be calculated for the average period, i.e. 6 months.

(*b*) Stock on hand on 31st March, 1952, was valued at £15,511.

(*c*) Reserves are to be made for one quarter's rent at the rate of £2,500 per annum, telephone £7, and carriage outwards £15.

(*d*) Depreciation on furniture and fittings is to be charged at the rate of 10 per cent per annum.

(*e*) The trade debtors include an item of £32 for goods supplied to Whiting at different times (interest on this is to be ignored).

(*f*) The bad debts reserve is to be made equal to 2½ per cent of the trade debtors.

(*g*) One-fifth of the "Alterations to Shop" are to be written off.

(*R.S.A. II*)

18. A, a sole trader, prepared accounts as on 31st March, 1951, when his capital account showed a balance of £9,000. On 1st April, he took in B as a partner on the terms that before B's entry a goodwill account for £4,000 should be raised, that B should bring in £3,000 in cash as his capital, interest at 5 per cent per annum should be allowed on capital accounts and the balance of profit be divided between A and B in the proportion of 3 to 1.

The profit for the year to 31st March, 1952, before charging interest, was £4,050. Show the division of this between A and B. Show also what the division would have been had no provision been made as to goodwill, the other arrangements being as stated above. (*R.S.A. II*)

19. "The goodwill of the business is worth £5,000." What is meant by the above statement?

X.Y. agreed to take A.B. into partnership. A.B. was to pay £1,500 by way of premium for admission as a partner, and was to bring in £3,000 cash into the business as his capital.

Give the entries necessary to record the above particulars.

(*R.S.A. II*)

CHAPTER XVIII

ACCOUNTS OF NON-TRADING CONCERNS

THE accounts so far dealt with have related to businesses whose object has been the making of profits.

There are, however, associations and clubs whose aims are the provision of services or recreation for their members. Any profits they may make are incidental, and in any case are regarded only as subsidies for the furtherance of those aims, but there must, of course, be some sort of record kept of monies received and paid out, in order that members may be assured that their subscriptions have been properly applied.

Such accounts are usually examined by an auditor, whose duty it is to examine the accounts and to certify them as correct, or, if he is not satisfied, to make an appropriate report.

For the smallest type of club or association, possessing no assets, and dealing with all transactions on a cash basis, a Receipts and Payments account will suffice.

The Receipts and Payments Account

A receipts and payments account is very much like a cash book, and usually contains analysis columns.

The rules for entry in this account are the same as for an ordinary cash book, i.e. receipts are debited and payments credited. It must, however, be emphasized that *all* receipts and payments of cash during the period under review must be recorded at once, regardless of whether they refer to that period or not, and would include such items as payment of subscriptions in advance or in arrear.

The purchase and sale of assets for cash must be recorded. In short, all receipts and payments of cash for any reason whatsoever must be recorded in the receipts and payments account.

A specimen receipts and payments account for a small tennis club is shown on p. 242.

Receipts and Payments Account of the Cordwell Tennis Club for 1952 Season

Date	Name	Visitors' Fees	Entrance Fees	Subscriptions	Total
1952		£	£	£	£
April 1	To Balance b/f.				10
	T. Jones .			2	2
2	F. Smith .			2	2
May 1	R. Orme .	1			1
12	T. Moss .		2		2
June 10	T. Moss .			2	2
July 4	L. Hutton .			2	2
10	T. Boam .	1			1
14	R. Orme .	1			1
Aug. 1	F. Rogers .			2	2
10	T. Mason .			2	2
Sept. 1	H. Parsons .		2	2	4
14	T. Boam .	1			1
21	L. Carter .			2	2
30	L. Hutton .	1			1
		5	4	16	35
					35
1952					
Oct. 1	To Balance b/d.				15

Date	Particulars	Wages	Balls	Total
1952		£	£	£
April 1	By L. Johnson .		10	10
Sept. 30	Groundsman .	10		10
		10	10	20
Sept. 30	By Balance c/d .			15
				35

This would be summarized as follows for presentation to the club members—

THE CORDWELL TENNIS CLUB RECEIPTS AND PAYMENTS ACCOUNT FOR 1952 SEASON

Receipts	£	*Payments*	£
Balance b/f	10	Wages	10
Visitors' Fees	5	Balls	10
Entrance Fees	4	Balance in Hand	15
Subscriptions	16		
	35		35

It is obvious that a receipts and payments account alone would not meet the requirements of the large number of associations and clubs which possess assets that are subject to wear and tear, and who need to record amounts owing by or to them.

To cover these requirements it is usual to prepare an Income and Expenditure Account and a Balance Sheet, which are the final accounts of a non-trading concern.

The Income and Expenditure Account

This account is simply the profit and loss account of a non-trading concern, in which expenses are debited and gains credited. Amounts outstanding at the end of a period are also dealt with in exactly the same way as in a profit and loss account.

It must be emphasized that an income and expenditure account, like a profit and loss account, deals only with receipts and payments of *revenue* and not of capital.

The distinction between capital and revenue expenditure was explained in Chapter VIII, and the observance of this distinction is just as necessary when dealing with the accounts of a non-trading concern as when dealing with those of a business.

As the assets of a business are essential for the provision of profits for its proprietors, so are the assets of a non-trading concern necessary for the provision of services or recreation for its members. The outlay on such assets is therefore capital expenditure, and the maintenance of those assets revenue

expenditure, and under the heading of revenue expenditure may be included also the running expenses of the club or association. A few examples will make this clear.

A well-established tennis club may have spent sums in laying down courts, providing pavilions or a club house, in addition to buying equipment of a more or less permanent nature. This expenditure would obviously be capitalized, but amounts spent on repairs and upkeep would constitute revenue expenditure.

Amounts spent on tennis balls and other sundries which are soon expended, running expenses, and receipts arising from subscriptions and the sale of refreshments and sundries, would all be treated as revenue items.

A credit balance in the income and expenditure account would represent excess of income over expenditure, and a debit balance the reverse condition. An excess of income would be added to, and an excess of expenditure deducted from the Accumulated Fund, which is in effect the capital account, and is shown on the liabilities side of the balance sheet as representing the indebtedness of the club to its members.

The Final Accounts of a Non-trading Concern

It is proposed to prepare the final accounts of the Cordwell Tennis Club, for in so doing not only will the compilation of the final accounts of a non-trading concern be illustrated, but also the method for dealing with that very common task allotted to students—the preparation of an income and expenditure account from a given receipts and payments account.

During the examination of the receipts and payments account of this club, particular attention is drawn to the following points—

1. It includes the balance of cash, which of course is an asset, and must be shown in the balance sheet and not in the income and expenditure account.

2. No record is made of amounts outstanding. There was in fact £5 owing for wages, and of the subscriptions £2 had been paid in advance for 1953.

3. The club owned premises worth £100 and furniture worth £20, which were subject to depreciation at the rate of

2 per cent and 5 per cent per annum respectively. No account of these had been shown.

4. The club had bought a tennis net worth £10 on credit from Swallow and Sons, but no record has appeared in the receipts and payments account, as payment has yet to be made. This represents capital expenditure, and requires entries in the balance sheet regarding the asset acquired and the liability still outstanding for the amount due to the supplier.

The final accounts of the club are now shown—

THE CORDWELL TENNIS CLUB

INCOME AND EXPENDITURE ACCOUNT FOR 1952 SEASON

		£	£			£	£
Sept. 30	To Wages . .	10		Sept. 30	By Subscriptions .	16	
	Add amount owing .	5			*Less* prepaid	2	
			15				14
	Tennis Balls . .		10		Visitors' Fees . .		5
	Depreciation—				Entrance Fees. .		4
	Premises 2%	2			Excess of expenditure over income .		5
	Furniture 5%	1					
			3				
			28				28

THE CORDWELL TENNIS CLUB

BALANCE SHEET AS AT 30TH SEPTEMBER, 1952

Liabilities	£	£	*Assets*	£	£
Accumulated Fund—					
Balance at 1st April, 1952 .	130		Premises	100	
Less Excess of expenditure over income, 1952 Season	5		*Less* Depreciation . .	2	
		125			98
			Furniture	20	
Creditors—			*Less* Depreciation . .	1	
					19
Swallow and Sons . .	10				
Wages	5		Tennis Nets		10
Subscriptions prepaid .	2		Cash in Hand		15
		17			
		142			142

The amount of the capital (in the form of the accumulated fund) at the beginning of the season was £130, represented by premises £100, furniture £20, and the opening cash balance of £10.

When preparing an income and expenditure account from a given receipts and payments account, attention should be given to the following points—

1. The income and expenditure account must include only items relating to the period under review, amounts outstanding being dealt with in the same way as that used with a profit and loss account.

2. All capital or balance sheet items must be excluded from the income and expenditure account, including, of course, cash balances.

3. The balance of the income and expenditure account has to be added to the balance of the accumulated fund brought forward if the income for the period has exceeded the expenditure, or deducted from it in contrary circumstances.

When a Balance Sheet is not Necessary

For societies which have cash as their only asset, a balance sheet would obviously be superfluous, and the income and expenditure account could be submitted in the following form—

CHESTERFIELD LAWN TENNIS CLUB

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30TH SEPTEMBER, 1952

Expenditure	£	*s.*	*d.*	*Income*	£	*s.*	*d.*
To Rates	27	15	9	By Subscriptions	52	10	–
Balls		16	–				
Gas		12	–				
Income Tax	6	–	–				
Water		12	4				
Repairs to Piping	1	14	6				
Groundsman	2	–	–				
Bank Charges		7	6				
Cleaning		13	1				
Excess of income over expenditure c/d	11	18	10				
	52	10	–		52	10	–
To Balance carried forward to next year	27	18	10	By Balance b/d	11	18	10
				Balance brought forward from last year	16	–	–
	27	18	10		27	18	10

The accumulated fund in this case consists solely of cash, and the division of the account into two sections allows cash received and disbursed in respect of current transactions to be distinguished from the amount brought forward from the previous period.

EXERCISE XVIII

1. From the following Receipts and Payments Account of the Blankfield Tennis Club, prepare an Income and Expenditure Account for the season ended 30th September, 1952, and a Balance Sheet as on that date—

RECEIPTS AND PAYMENTS ACCOUNT

For Season Ended 30th September, 1952

Receipts	*Dr.* £	*Payments*	*Cr.* £
To Balance, 1st April	40	By Wages	100
Entrance Fees	10	Stationery	12
Subscriptions	200	Rent	30
Visitors' Fees	10	Repairs	10
Profit on Machines	10	Balance c/f 30th Sept.	132
Profit on Teas	14		
	284		284

£10 subscriptions are owing for the year.

£20 are owing for wages.

The pavilions were valued at £400 and the equipment at £200 on the 1st April, 1952.

The estimated depreciation per season is 2 per cent on pavilions and 5 per cent on equipment.

2. Explain the difference between a Receipts and Payments Account and an Income and Expenditure Account.

On 30th April, 1952, the assets and liabilities of the Society for the Encouragement of Good Book-keeping were as follows—

	£
Cash at Bank and in hand	212
Office Furniture	350
4 per cent Consols, £600 at cost	636
Stock of Literature	47
Subscriptions for 1952–3 received in advance	42
Rent outstanding, 1 month	20

The following is a summary of the cash transactions during the year—

	£		£
In hand, 30th April, 1952	212	Rent of Office	240
Subscriptions and Donations	741	Office Salaries	650
Subscriptions 1953–4	28	Office Expenses	73
Literature Sales	715	Cost of £300 Local Loans 3% stock	255
Proceeds of £200 Consols (sold April)	205	Lecturer's fees and hire of halls	136
Receipts from Lecture Tickets	109	New Office Furniture	40
Interest on Consols	24	Literature Purchases	418
		In hand, 30th April, 1953	222
	2,034		2,034

On 30th April, 1953, £20 was outstanding for rent accrued, and the stock of literature on hand was valued at £56. £25 is to be written off the furniture as depreciation.

Prepare accounts for the society in the form you think would be most suitable for distribution to subscribers.

3. The following trial balance was extracted from the books of the Ace Badminton Club on 31st December, 1952—

	Dr. £	*Cr.* £
Accumulated Fund		603
Premises	400	
Equipment	200	
Refreshments		40
Minerals and Biscuits	20	
Subscriptions		100
Entrance Fees		10
Caretaker's Wages	20	
Visitors' Fees		10
Whist Drive		10
Dance		20
Contribution to League	5	
Stationery	3	
Rates	5	
Repairs	10	
Cash at Bank	120	
Cash in Hand	10	
	793	793

You are required to prepare the final accounts of the club for the year ended 31st December, 1952, after making the following adjustments—

(*a*) Depreciate Premises by 2 per cent and equipment by 10 per cent.
(*b*) Subscriptions owing for the year amounted to £10.
(*c*) £5 was owing to the caretaker for wages.

(*d*) It was agreed that the Secretary should be allowed an honorarium of £10.

(*e*) £2 was owing for the printing of whist scoring cards.

4. The following list of balances as on 31st December, 1951, was extracted from the books of the City Club—

	£
Club Premises—Alterations Account	1,200
Receipts from Catering	1,623
Receipts for Bar	1,990
Entrance Fees (year 1951)	42
Sale of Tickets for Annual Dinner	192
Receipts from Cards and Billiards	48
Accumulated Fund, 31st December, 1950	2,300
Furniture and Fittings at cost, *less* depreciation	1,180
Cutlery, Glass, Linen and Utensils at cost	350
Loans from Members at 5 per cent per annum	600
Stocks on hand, 31st December, 1950—	
Catering	47
Bar	218
Subscriptions Received—	
Year 1950	51
„ 1951	920
„ 1952	21
Subscriptions outstanding, 31st December, 1950	63
Loan Interest (to 31st August, 1951)	20
Sundry Creditors (Catering Account), 31st December, 1950	276
£200 4 per cent Victory Bonds at cost	184
Interest on Victory Bonds (net)	6
Cash Payments—	
Purchases (Catering)	1,184
„ (Bar)	1,076
Printing, Stationery and Postage	132
General Expenses	40
Rent, Rates and Insurance	312
Lighting and Heating	282
Secretary's Salary	200
Cost of Annual Dinner	211
Replacement of Cutlery, Glass, Linen, etc.	97
Repairs and Cleaning	228
Wages—	
Catering	420
Bar	240
General	240
Cash at Bank and in hand	145

You are required to prepare accounts for the year ended 31st December, 1951, and a balance sheet as on that date, after taking into consideration the following particulars—

(*a*) The Catering and Bar Stocks at the close of the year were valued at £36 and £213 respectively.

(*b*) The amount due to creditors on that date for catering supplies was £198.

(*c*) The subscriptions outstanding on 31st December, 1951, in respect of 1950 and 1951 amounted to £12 and £77 respectively. It is anticipated that £7 in each year will prove to be irrecoverable.

(*d*) Depreciation on Furniture and Fittings is to be provided at the rate of 10 per cent per annum.

(*e*) Provision is to be made for the accrued interest on the Loans from Members.

(*R.S.A. III, adapted*)

APPENDIX

SUPPLEMENTARY EXERCISES

1. F. Webber commences business on 1st February, 19... His capital to start with is £12,500 in the bank.

19..
Feb. 2. Purchases the following assets from C. Butt on credit, van £300, premises £5,000, stock £3,000.
3. Pays C. Butt in full.
4. Purchases furniture by cheque £350.
5. Sells van to West Motors, Ltd., on credit £300.
6. Purchases new van by cheque £450.

Show his Balance Sheet on 1st February and again after each transaction.

2. The following were the assests and liabilities of S. Catesby on 1st May, 19...

	£
Cash at bank	1,000
Cash in hand	40
Stock	1,500
Premises	10,000
R. James (creditor)	640

Find his capital and show his Balance Sheet on that date.

19..
May 2. Made loan in cash to G. Lass £10.
3. Paid R. James by cheque £500.
4. Purchased office equipment on credit from B. Deck £400.
5. G. Lass repaid his loan by cheque £10.
6. Paid into bank from office cash £20.

Show his Balance Sheet after each transaction.

3. The following were the assets and liabilities of L. Brown, a cycle dealer, on 1st June, 19...

	£
Cash in hand	80
Cash at bank	700
Stock	1,500
T. Way (debtor)	100
W. Wise (creditor)	500

Draw up his Balance Sheet on 1st June, 19...

19..
June 2. Paid into bank £60.
3. Purchased stationery for cash £7.
4. T. Way paid by cheque £60.
5. Paid W. Wise by cheque £500.
6. Paid rates in advance £20.

Show his Balance Sheet on 6th June, 19...

4. From the following information, write up a three-column cash book, and balance at the end of the month.

19..
Jan. 1. Cash Balance £49 6s. 6d.; Bank Balance £1,150 16s. 6d.
2. Received cheque from Jameson & Sons (in settlement of account for £15 8s. 10d.) £14 8s. 10d.
3. Paid water rate by cash £3 5s. 10d.
5. John Towne pays his account (£10) by cheque (discount 10s.) £9 10s.
9. Bruce Bros. paid us by cash £50.
12. Salaries paid in cash £18 15s.
13. Paid general rates by cheque £28 5s.
15. Drew money by cheque for self £50.
16. Jackson paid us by cheque (after deducting £10 discount) £190.
19. Pershore & Co's. account of £59 10s. paid to us by cheque after deducting discount £56 10s.
20. Paid by cheque to Robertsons the amount due of £100 less 5 per cent discount £95.
25. Newbold & Co. paid us in cash £49.
26. Outing Bros. paid by cheque their account (£50) less 2½ per cent discount £48 15s.
27. Paid cash into bank £100.
28. Cheque paid to Hull Bros., Ltd. £14 8s. 11d.
31. Rent paid by cheque £25.
Salary paid to manager by cheque £75.
Falconer paid their account (£25) by cheque for £24.
Paid amount owing to Rice & Son by cheque £32.
Purchased machinery £400.

5. H. Wall commenced business on 1st January, 19.., with £3,000 in the bank. His transactions during January were as follows—

19..
Jan. 1. Purchased by cheque: office furniture £300, motor van £500, stock £550, sundry items £60.
5. Purchased goods by cheque from N. Long £1,000.
7. Drew from bank for office use £50.
10. Sold goods by cheque to H. Biggs £800.
15. Salary to assistant, cash £16.
17. Drew for self by cheque £30.
20. Sold goods for cash £80.

30. Salary to assistant, cash £16.
31. Sundry expenses paid in cash £15.

Enter the above transactions in a three-column cash book. Balance the cash book. Post the items to the ledger.

6. Enter into a Sales Book, and post to the ledger accounts, the following transactions of a wholesale clothing merchant, allowing trade discount of 20 per cent on footwear and 10 per cent on general clothing.

19..	*Customer*	*Goods*
April 1.	Hawkins	10 doz. pairs girls' boots at 13s. per pair.
3.	Nelson	50 men's velour hats at 30s. each.
5.	Grenville	2 doz. boys' coats at £2 each.
7.	Alexander	3 doz. ladies' coats at £5 each.
10.	Montgomery	10 pairs men's boots at £1 10s. per pair.
14.	Elderton	60 cardigan jerseys at 75s. per doz.
20.	Drake	30 ladies' hats at £1 5s. each.

7. From the following prepare the Sales Book of Norman Long & Sons, furniture dealers.

19..	*Customer*	*Goods*	*Trade Discount*
March 1.	L. Clay	4 oak tables at £25 each	10 %
6.	R. Burns	6 oak chairs at £4 each	15 %
9.	S. Lewis	2 rugs at £18 each	–
11.	F. Gardener	1 Axminster carpet £60	12½%
15.	J. Gowan	1 oak sideboard £50	–

Post to a ledger.

8. James Blank makes the following credit purchases during a week in March. Enter up in the Purchases Book and post to the Ledger.

19..		
March 8.	L. Moore	Ornaments £58.
		6 powder compacts at £2 11s. 3d. each.
12.	S. Wren & Co.	20 alarm clocks at 25s. each.
		4 pearl necklaces at £3 each.
		Subject to 20 per cent trade discount.
19.	S. Gregory	10 silver cigarette cases at £3 each.
		100 cigarette holders at 4d. each.
		Subject to 10 per cent trade discount.

9. Prepare the opening entries of David Owen who commences business with the following—

	£
Stock on hand	600
Furniture and fittings . .	170

	£
Cash in hand	50
Sundry debtors. . . .	150
Sundry creditors . . .	270
Cash in bank	2,000
Loan to J. Brown . . .	100

10. By means of Journal entries record the following—

19..

Feb. 21. Received a letter from F. Duncan stating he cannot allow the £3 cash discount deducted when we paid his account.

28. The correction of £30 cash purchases debited in error to Wages Account.

March 10. Van worth £66 and various oddments worth £34 received in settlement of a £100 debt owing by D. Bagg.

11. Record the following through the Journal—

19..

April 7. Purchased new van for £200 in cash and an old van in exchange.

14. Correction of entry: £14 10s. 2d. paid to H. James & Co., instead of H. James & Son.

30. Write off 5 per cent depreciation of plant and machinery standing in books at £3,200.

INDEX

ACCOUNTS—
  final, 80–5, 145–8, 196–9, 244–6
  impersonal, 22
  nominal, 22
  personal, 22
  real, 22
  suspense, 68–9
Accuracy, 104
Adjustments and provisions, 129
Admitting new partner, 219–22
Advance payments, 132–6
Advertising prepaid, 88
Amalgamation—
  of businesses, 222–3
  of two sole traders, 223–5
    revaluation of assets, 224
Amounts outstanding, 129–31
Analysis—
  of Balance Sheet, 94–100
  of Profit and Loss Account, 92
Appropriation Account, Profit and Loss, 196
Assets—
  circulating, 15
  current, 94
  defined, 12
  fictitious, 95
  fixed, 94
  intangible, 95
  liquid, 95
  on credit, purchase and sale of, 42
  order of, 81, 108
  position in Balance Sheet, 81
Average stock, 93

BAD debts, 47, 136 *et sqq.*
  actually incurred during period of transaction, 138
  provision for, 136–8
  recovered, 139
  set off against provision, 139
  writing-off of, 47
Balance Sheet, 11, 108–9
  analysis of, 94
    and comparison with previous ones, 98–100
Balance Sheet (*contd.*)—
  effects of transactions on, 13
  first, 12
  for non-trading concern—not necessary, 246
  heading of, 81
  position of assets and liabilities in, 81
Balancing—
  accounts, 29, 106
  Cash Book, 107
Bank—
  charges, 160
  deposit account, transfers to, 161
  interest, 165
  loans, 9
  overdraft, 9
  reconciliation statement, 160–4
  statement, 6, 8
Banking account, 1, 160
  opening of, 3
Bearer cheques, 3
Book-keeping, purpose of, 11
  double-entry, 17
Bought—
  Day Book, 31
  Ledger, 59
Business, commencement of, 11, 44

CALCULATION—
  and comparison of results, 76, 92
  of closing stock, 77–9, 118, 146
  of net profit, 79
Capital, 12, 96
  accounts, partners', 193
  and revenue, distinction between, 87
  drawings in excess of, 87
  employed, 96
  owned, 96
  working, 96
Card ledgers, 58
Cash balance, importance of, 97
Cash Book, 23, 65, 107
  balancing of, 107
  information supplied by, 39

Cash Book (*contd.*)—
rules for posting, 55
for recording entries, 23
Cash discount, 26–7
and dishonoured cheque, 165
posting of, 27
Cash transaction, *re* trader's name in, 108
Cheques—
bearer, 3
convenience of, 4
counterfoil, 4
crossing of, 5
drawn but not cleared, 160
endorsement of, 3, 4, 7
order, 3
paid in but not credited, 162
Circulating assets, 15
Closing—
entries, 83
stock, calculation of, 77–9
Columnar—
book-keeping, 180
Profit and Loss Account, 182
Purchases Book, 182–3
Sales Book, 180–1
Trading Account, 182, 185
Comparative figures, display of, 97
Composite journal entries, 47
Contingent liabilities, 95
Contra entries, 107
Correction of errors, 45
Credit—
and debit, 21
balance, 29, 58
note, 36
purchases, 14, 31
sales, 14, 33
Creditors—
in Balance Sheet, 109
provision for discount on, 141–2
Creditors' Ledger, 59
Current—
account, 1
partners', 193, 200
assets, 94
liabilities, 95

Damaged stock, 77–9
Dates, how shown, 104
Day Book—
Bought, 31
Sales, 33
Debit balance, 29, 58
Debit—
and credit, 21
note, 36–7
Debtors—
in Balance Sheet, 109
provision for discount on, 140–1
Debtors' Ledger, 59
Deposit account, 1
Depreciation, 142–4
provision for, 142
Discount—
allowed, 27
calculation of, 26
kinds of, 26
received, 27
Dishonoured cheques, 165–6
and cash discount, 165
Dormant partner, 191
Double-entry book-keeping, 17
Drawee, 3
Drawer, 3
Drawings, 4, 85
in excess of capital, 87
other than in cash, 86

Employed capital, 96
Endorsement of a cheque, 3, 4, 7
Errors in Books Account, 68
Errors—
common, 65
compensating, 67
correction of, 45
deep-seated, 66
location of, 66
not revealed in Trial Balance, 67
of principle, 67
types of, 67
Example—
of final accounts with adjustments, 145
Worked, 50, 110
Expenses—
allocation in final accounts, 109
classification of, 107

Fictitious assets, 95

Final accounts, 85, 145–8
of non-trading concern, 244–6
of partnership, 196–9
transferring ledger accounts to, 84
Final stock—
calculation of, 77
recording of, 84
First Balance Sheet, 12
Fixed assets, 94
value of, 98
Fixed-instalment method, 143
Float, 171
Folio, 21

General Ledger, 59
Goodwill, 97
payment for, 221–2
treatment of, on admitting new partner, 219
Gross profit, 76
effect of stock on, 76–7

Heading—
of Balance Sheet, 81
of Profit and Loss Account, 81
of Trading Account, 81

Impersonal account, 22
Imprest—
amount, 171
system, 171
Income and Expenditure Account, non-trading concerns, 243
Ink, 104
Instalment method—
fixed, 143
reducing, 143
Insurance paid in advance, 134–5
Intangible assets, 95
Interest—
from bank, 165
on capital, 193, 194
on drawings, 193, 194
on loans, 109
Invoice, 16, 17
Inwards Returns Book, 35, 39, 113

Journal, 42 *et sqq.*
posting of, 43, 45, 46
rules for posting, 54
Journal entries—
closing, 83
composite, 47
for bad debts, 47
for correction of errors, 45
for drawings other than in cash, 86
opening, 44
Journalizing, 44

Ledger, 21 *et sqq.*
balances, transferring to final accounts, 84
Bought, 59
card, 58
Creditors', 59
Debtors', 59
division of, 59
General, 59
loose-leaf, 58
Nominal, 59
posting, 55–7
private, 59
Purchases, 59
recording transactions in, 58
ruling, 21
Sales, 59
subdivision of, 59, 105
Liabilities—
contingent, 95
current, 95
long-term, 95
order of, 81, 108
position in Balance Sheet, 81
Liability, 12, 95
Limited partner, 191
Limited Partnership Act, 1907, 191
Liquid assets, 95
Loans, 109
interest on, 109
Long-term liabilities, 95
Loose-leaf ledgers, 58

Multiple current accounts, 165

Neatness, 104
Negotiable instrument, 5
Net profit, 76, 93
calculation of, 79
New partner, admitting, 219

Nominal accounts, 22
Nominal Ledger, 59
Non-trading concerns, 241–7

Obsolescent stock, 78
Obsolete stock, 78
Opening journal entry, 44
Order of assets and liabilities, 108
Order cheque, 3
Outward Returns Book, 35, 39
Overdraft, 9
Owned capital, 96

Partners'—
  Capital Accounts, 193
  Current Accounts, 193, 200
Partnership, 190 *et sqq.*
  books of, 193
  final accounts of, 196
  salaries, 193, 194
Partnership Act, 1890, 190
Payee, 3
Paying-in slips, 6–7
Payments, 25
  in advance, 132–5
  in full settlement, 108
  of account to date, 108
Personal account, 22
Petty Cash Book, 171–3
Posting, 28, 106
  cash discount, 27
  Journal, 43, 45, 46
  Purchases Book, 32
  Returns Inward Book, 36
  Returns Outwards Book, 35
  Sales Book, 33–4
Prepaid advertising, 88
Prime entry, book of, 44
Principal books of account, 40
Private Ledger, 59
Profit, 14
  gross, 76
  net, 76
Profit and Loss Account—
  analysis of, 92
  Appropriation Account, 196
  columnar, 182, 185
  heading of, 81
Provision—
  for bad debts, 136–7
Provision (*contd.*)—
  for depreciation, 142
  for discount on creditors, 141–2
  for discount on debtors, 140–1
Provisions and adjustments, 129
Purchase of assets on credit, 42
Purchases—
  credit, 14, 31
  meaning of, 27, 31
  Book, 31–2, 39, 65
    columnar, 182–3
    posting of, 32–3
    rules for posting, 54
  Ledger, 59
  Returns Book, 34

Rates paid in advance, 132–4
Real account, 22
Receipts, 25
Receipts and Payments Account, 241–3
Reducing instalment method, 143
Rent owing, 130–1
Results—
  calculation and comparison of, 76
  display of, 98
Returned goods, reasons for, 38
Returns Book—
  Purchases, 34
  Sales, 36
Returns Inward, 47, 66
  Book, 35, 39
    posting of, 36
    rules for posting, 54
Returns Outward, 34, 47, 66
  Book, 35, 39
    posting of, 35
    rules for posting, 54
Revenue and capital, distinction between, 87
Ruling of ledger, 21

Salaries, partnership, 193, 194
Sale of assets on credit, 42
Sales—
  Book, 33, 39, 66
    columnar, 180
  meaning of, 25
    posting of, 34
    rules for posting, 54
  Day Book, 33

Sales (*contd.*)—
Ledger, 59
meaning of, 27
Returns Book, 36
on credit, 14, 33
Settlement in full payment, 108
Sleeping partner, 191
Statement, 17, 18, 19
Stock, 105
average, 93
calculation of, 118
Closing, calculation of, 77–80
damaged, 78
effect on gross profit, 76–7
inventory, 77
nature of, 84
obsolescent, 78
obsolete, 78
valuation, 77
Stocktaking, 77
Subsidiary books of account, 40
Sundry creditors, 14
Suspense account, 68, 69

Trader's name in cash transaction, 108
Trading Account, 77
analysis of, 92
and damaged stock, 79
columnar, 182, 185
heading of, 81
Trading period, amounts paid in advance of, 132
Transactions, effects on Balance Sheet, 13
rules for recording of, 22
Transfers to bank deposit account, 160–1
Transposition of figures, 66
Trial Balance, 63, 108, 117
meaning of, 63
Turnover, 93

Valuation of stock, 77

Working capital, 96
margin, 96
Writing off bad debts, 47

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